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United Nations

United Nations Human Settlements Programme

Financial report and audited financial statements

for the year ended 31 December 2017

and

Report of the Board of Auditors

General Assembly
Official Records
Seventy-third Session
Supplement No. 5I

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Report of the Board of Auditors

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Note

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Letter dated 31 March 2018 from the Executive Director of the United Nations Human Settlements Programme addressed to the Chair of the United Nations Board of Auditors

In accordance with regulation 6.2 and rule 106.1 of the Financial Regulations and Rules of the United Nations, I am transmitting the financial report and accounts of the United Nations Human Settlements Programme, and other related accounts, for the year ended 31 December 2017, which I approve on the basis of the attestations of the Chief Finance Officer, United Nations Office at Nairobi, and the Director of the Management and Operations Division of the United Nations Human Settlements Programme.

Copies of these financial statements are made available to both the Advisory Committee on Administrative and Budgetary Questions and the Board of Auditors.

(*Signed*) Maimunah Mohd **Sharif**
Executive Director
United Nations Human Settlements Programme

Letter dated 24 July 2018 from the Chair of the Board of Auditors addressed to the President of the General Assembly

I have the honour to transmit to you the report of the Board of Auditors on the financial statements of the United Nations Human Settlements Programme for the year ended 31 December 2017.

(*Signed*) Rajiv **Mehrishi**
Comptroller and Auditor-General of India
Chair of the Board of Auditors

Chapter I

Report of the Board of Auditors on the financial statements: audit opinion

Opinion

We have audited the financial statements of the United Nations Human Settlements Programme (UN-Habitat), which comprise the statement of financial position (statement I) as at 31 December 2017 and the statement of financial performance (statement II), the statement of changes in net assets (statement III), the statement of cash flows (statement IV) and the statement of comparison of budget and actual amounts (statement V) for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of UN-Habitat as at 31 December 2017 and its financial performance and cash flows for the year then ended in accordance with the International Public Sector Accounting Standards (IPSAS).

Basis for Opinion

We conducted our audit in accordance with the International Standards on Auditing. Our responsibilities under those standards are described in the section below entitled "Auditor's responsibilities for the audit of the financial statements". We are independent of UN-Habitat, in accordance with the ethical requirements relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with those requirements. We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information other than the financial statements and the auditor's report thereon

The Executive Director is responsible for the other information, which comprises the financial report for the year ended 31 December 2017, contained in chapter IV below, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, on the basis of the work that we have performed, we conclude that there is a material misstatement in the other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IPSAS and for such internal control as

management determines to be necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the ability of UN-Habitat to continue as a going concern, disclosing, as applicable, matters related to the going concern and using the going-concern basis of accounting unless management intends either to liquidate UN-Habitat or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the financial reporting process of UN-Habitat.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the International Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentation or the overriding of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of UN-Habitat.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Draw conclusions as to the appropriateness of management's use of the going-concern basis of accounting and, on the basis of the audit evidence obtained, whether a material uncertainty exists in relation to events or conditions that may cast significant doubt on the ability of UN-Habitat to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause UN-Habitat to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

Furthermore, in our opinion, the transactions of UN-Habitat that have come to our notice or that we have tested as part of our audit have, in all significant respects, been in accordance with the Financial Regulations and Rules of UN-Habitat and legislative authority.

In accordance with article VII of the Financial Regulations and Rules of the United Nations, we have also issued a long-form report on our audit of UN-Habitat.

(*Signed*) Rajiv **Mehrishi**
Comptroller and Auditor General of India
Chair of the Board of Auditors

(*Signed*) Mussa Juma **Assad**
Controller and Auditor General of the
United Republic of Tanzania
(Lead Auditor)

(*Signed*) Kay **Scheller**
President of the German Federal Court of Auditors

24 July 2018

Chapter II
Long-form report of the Board of Auditors

Summary

The United Nations Human Settlements Programme (UN-Habitat) promotes socially and environmentally sustainable towns and cities, with the goal of providing adequate shelter for all. That effort includes providing information and support to Member States for developing policies and legislation to improve living conditions, as well as supporting operational activities, for example improved water provision and sanitation

The headquarters of UN-Habitat is in Nairobi, with four main regional offices covering Africa, the Arab States, Asia and the Pacific and Latin America and the Caribbean. It also has liaison and information offices in New York, Brussels, Beijing and Geneva and project offices in 76 countries across the world. UN-Habitat employs 291 core staff, 78 of whom are based in offices away from headquarters, together with fluctuating numbers of staff on specific contracts, in particular in field offices.

The total revenue of UN-Habitat for 2017 was $168.81 million, while total expenses were $197.48 million, resulting in a deficit of $28.67 million.

The Board audited the financial statements and reviewed the operations of UN-Habitat for the year ended 31 December 2017. The audit was carried out through the examination of the financial transactions and operations at UN-Habitat headquarters in Nairobi and at the country offices in Brazil, China, Colombia, the Lao People's Democratic Republic, Libya and the Syrian Arab Republic.

Scope of the report

The report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly and have been discussed with UN-Habitat management, whose views have been appropriately reflected.

The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements present fairly the financial position of UN-Habitat as at 31 December 2017 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS). The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

The Board also reviewed UN-Habitat operations under United Nations financial regulation 7.5, which allows the Board to make observations on the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of operations. The Board examined nine main areas of UN-Habitat activities (risk management, results-based management, programme and project management, implementing partners management, assets management, budget processing and monitoring, human resources management, office administration and financial management and reporting), as well as a detailed follow-up of actions taken in response to recommendations made in previous years.

Audit opinion

The Board issued an unqualified audit opinion on the financial statements for the period under review, as reflected in chapter I of the present report.

Overall conclusion

The Board did not identify material deficiencies in accounts and records that affect fair presentation of the financial statements of UN-Habitat. However, the Board noted scope for improvement in a number of areas, specifically with regard to resource mobilization, the implementation of the Anti-Fraud and Anti-Corruption Framework, asset management, office administration and implementing partners management. Those areas need strong internal control and monitoring of activities both in the country offices and at the headquarters to ensure the efficient and effective delivery of the mandate of UN-Habitat. Other areas that need management attention for improvement include results-based management and human resources management. The Board will continue to monitor the outcome of the management initiative in addressing the noted deficiencies in subsequent audits.

Key findings

The Board has identified a number of issues that management needs to consider in order to enhance the effectiveness of UN-Habitat operations. In particular, the Board highlights the following key findings.

Implementation of the donor relations and income strategy

From the review of the implementation of its strategy with regard to donor relations and income in six countries,[a] the Board noted that UN-Habitat had not developed a policy guideline, as required by the results framework for the donor relations and income strategy. According to management, UN-Habitat had developed templates for a resource mobilization strategy and proposal. In addition, the entity was finalizing some coordination tools, such as donor visibility guidelines and a focal point system. However, the Board does not consider those templates to be a policy guideline. Moreover, the planned capacity-building training for professional staff responsible for resource mobilization had not been performed as of the time of audit in April 2018. The Board noted that the failure to develop the policy and to undertake capacity-building initiatives was mainly due to inadequate coordination at UN-Habitat headquarters.

Delay in releasing funds to implementing partners

From the review of the funds disbursed to implementing partners at the country offices in the Lao People's Democratic Republic and in the Syrian Arab Republic, the Board noted cases of delays in disbursing funds to implementing partners for periods ranging from 3 to 104 days after submission of the payment request. Such delays are contrary to implementing partner policy and cooperation agreements and may affect the timely implementation of the agreed activities. As a consequence, the UN-Habitat programme in the Syrian Arab Republic, through the Regional Office for Arab States, raised the issue with the management of UN-Habitat and its Management and Operations Division to establish a fast-track payment process for countries classified as high priority or in a state of emergency, namely Iraq, the Syrian Arab Republic and Yemen, to facilitate the timely execution of project activities.

Lack of administrative policies, procedures and organizational structures for the new working arrangement at the Regional Office for Latin America and the Caribbean

During its visit to the country offices in Brazil and Colombia, the Board found that the Regional Office for Latin America and the Caribbean had organized its operations in a configuration of hubs instead of in the usual structure of regional and country offices. In such an arrangement, the hub manages project portfolios in more than one country in which UN-Habitat has no physical presence. However, the Board noted that there was no organizational structure for the new arrangement. UN-Habitat had not yet established administrative policies and procedures to provide guidance on the day-to-day management of hub operations.

Inadequate controls with regard to lease agreements

From the review of five lease agreements in five[b] country offices, the Board noted that, at the country office in Libya, an engineer entered into a lease agreement on behalf of UN-Habitat for the provision of office and parking space at rate of $4,639 per month. The lease period was seven months (from 15 December 2016 to 15 July 2017). However, the Board found that the engineer who signed the agreement was not a staff member and had no delegated authority to act as such, as required by a memorandum of the Executive Director of UN-Habitat dated 27 March 2014. It was also noted that the office building was not occupied by staff or assets of UN-Habitat. At the country office in China, the Board noted that after the termination of its lease agreement for its premises in June 2017 the country office moved to a temporary office space owned by a private company that was not adequate for its staff.

Recommendations

With regard to the above findings, the Board recommends that UN-Habitat:

(a) **(i) Develop policy guidelines and circulate them to the regional and country offices, as required under the results framework of the donor relations and income strategy; and (ii) ensure that capacity-building programmes are conducted for all staff who have resource mobilization responsibilities at the country and regional levels;**

(b) **Release funds to implementing partners on time so that the planned activities can be completed within the scheduled period, and establish a fast-track payment process for emergency and high-priority countries, as proposed by the country office in the Syrian Arab Republic;**

(c) **Establish management structures, administrative policies and procedures for the new hub arrangement to provide guidance on the day-to-day management of hub operations in the Regional Office for Latin America and the Caribbean;**

(d) **(i) Ensure that its field offices comply with the delegation of authority in accordance with the requirement of the memorandum of the Executive Director dated 27 March 2014; and (ii) ensure that the country office in China obtains appropriate office accommodations for its staff.**

[a] Brazil, China, Colombia, the Lao People's Democratic Republic, Libya and the Syrian Arab Republic.

[b] China, Colombia, the Lao People's Democratic Republic, Libya and the Syrian Arab Republic.

Key facts	
$243.48 million	Original core and earmarked budget
$194.59 million	Final core and earmarked budget
$168.81 million	Total revenue
$197.48 million	Total expenses
291	UN-Habitat staff

A. Mandate, scope and methodology

1. The Board of Auditors has audited the financial statements of the United Nations Human Settlements Programme (UN-Habitat) and has reviewed its operations for the financial period ended 31 December 2017 in accordance with General Assembly resolution 74 (I) of 1946. The audit was conducted in conformity with the Financial Regulations and Rules of the United Nations, as well as the International Standards on Auditing. The Standards require that the Board comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

2. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements present fairly the financial position of UN-Habitat as at 31 December 2017 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS). That effort included an assessment as to whether the expenses recorded in the financial statements had been incurred for the purposes approved by the governing bodies and whether revenue and expenses had been properly classified and recorded in accordance with the Financial Regulations and Rules of the United Nations. The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

3. The Board also reviewed UN-Habitat operations under United Nations financial regulation 7.5, which requires the Board to make observations on the efficiency of the financial procedures, the accounting system, the internal controls and, in general, the administration and management of operations.

4. During the course of the audit, the Board visited UN-Habitat headquarters in Nairobi and six country office operations in Brazil, China, Colombia, the Lao People's Democratic Republic, Libya and the Syrian Arab Republic. The Board continued to work collaboratively with the Office of Internal Oversight Services (OIOS) to provide coordinated coverage.

B. Findings and recommendations

1. Follow-up of previous years' recommendations

5. Of the 23 recommendations outstanding as at 31 December 2016, the Board noted that 13 recommendations (56 per cent) had been fully implemented, 8 recommendations (35 per cent) were under implementation and 2 recommendations (9 per cent) had been overtaken by events. Details of the status of implementation of the recommendations are shown in annex I. The Board is of the view that there has been positive improvement in the implementation of its recommendations.

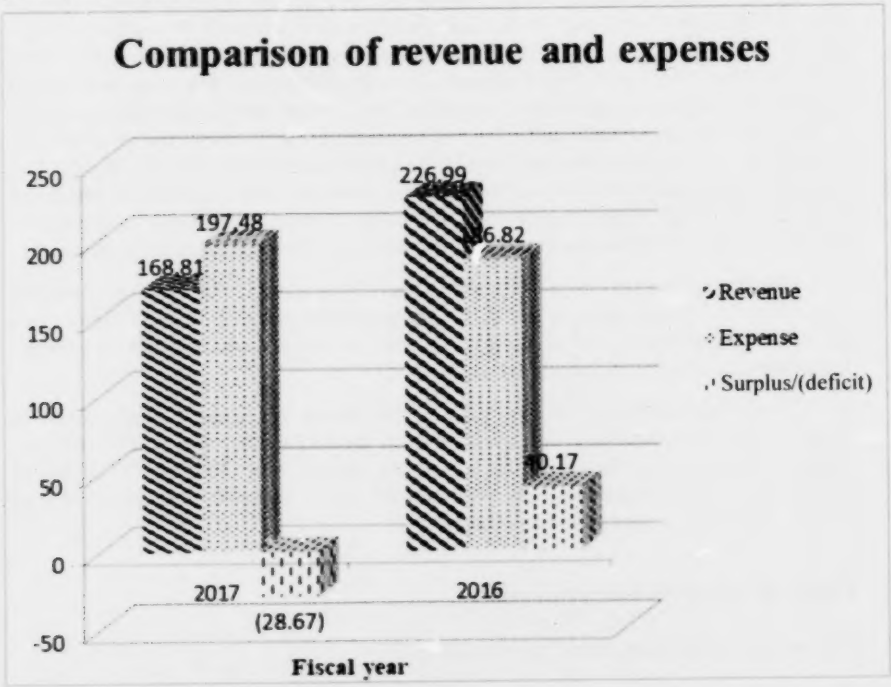
6. The eight recommendations under implementation comprise two recommendations awaiting the endorsement of the Governing Council and United Nations Headquarters directives and six recommendations that are at various stages of implementation.

2. Financial overview

Revenue and expenses

7. UN-Habitat revenue includes assessed contributions (regular budget), voluntary contributions, investment revenue and other revenue. During the period under review, total revenue decreased by $58.18 million (26 per cent), from $226.99 million in 2016 to $168.81 million in 2017. The decrease was mainly due to a decrease in voluntary contributions and assessed contributions of $67.34 million and $0.54 million respectively. Although revenue decreased during the year, total expenses increased by $10.66 million (6 per cent), from $186.82 million in 2016 to $197.48 million in 2017. The increase in expenses was attributed mainly to an increase in grants to end beneficiaries ($11.60 million), other contracted expenses ($4.56 million), bad debts ($8.36 million) and consultants and contractors ($1.27 million). Owing to increased expenses and a decline in revenue, UN-Habitat recorded a deficit of $28.67 million in 2017 compared with a surplus of $40.17 million in 2016. A comparison of revenue and expenses for 2017 and 2016 is represented in figure II.I.

Figure II.I
Revenue and expenses
(Millions of United States dollars)



Source: UN-Habitat financial statements for 2016 and 2017.

Ratio analysis

8. Table II.1 contains key financial ratios analysed from the financial statements, mainly from the statements of financial position and financial performance.

Table II.1
Ratio analysis

Description of ratio	*31 December 2017*	*31 December 2016*	*31 December 2015*
Current ratio[a]			
Current assets: current liabilities	3.60	6.49	4.76
Total assets: total liabilities[b]	3.20	4.71	3.92
Cash ratio[c]			
Cash + investments: current liabilities	1.71	2.76	1.92
Quick ratio[d]			
Cash + investments + accounts receivable: current liabilities	3.28	5.76	4.18

Source: UN-Habitat 2017 financial statements.

[a] A high ratio indicates an entity's ability to pay off its short-term liabilities.

[b] A high ratio is a good indicator of solvency.

[c] The cash ratio is an indicator of an entity's liquidity by measuring the amount of cash, cash equivalents or invested funds there are in current assets to cover current liabilities.

[d] The quick ratio is more conservative than the current ratio because it excludes inventory and other current assets, which are more difficult to turn into cash. A higher ratio means a more liquid current position.

9. Despite the deficit sustained in 2017, UN-Habitat key financial indicators remain sound, as shown by the high ratios of current assets to current liabilities and total assets to total liabilities. All ratios indicate a significant decrease in liquidity and solvency compared with the year 2016. The decrease was attributed to a substantial decrease in current assets such as cash and cash equivalents, voluntary contributions receivable and other assets, while current liabilities increased significantly. The result was a decrease in the overall ratios.

3. Project management

Implementation of the donor relations and income strategy

10. The Board reviewed the implementation of the donor relations and income strategy for 2016–2017 of UN-Habitat in six countries.[1] The review focused on coordination and support for decentralized resource mobilization.

11. The Board observed that although UN-Habitat had developed the income and donor relations strategy and established the resource mobilization committee, it had neither developed guidelines nor conducted capacity-building training for professional staff responsible for resource mobilization as planned. According to management, UN-Habitat had developed templates for a resource mobilization strategy and proposal. In addition, the entity was developing coordination tools, such as donor visibility guidelines and a focal point system. However, the Board does not consider those templates to be the policy guidelines required under the results framework for the strategy. From discussion with management, the Board learned that the anomalies resulted from the inadequate coordination of resource mobilization

[1] Brazil, China, Colombia, the Lao People's Democratic Republic, Libya and the Syrian Arab Republic.

initiatives at the entity's headquarters level. The Board is of the view that inadequate coordination affects the ability of branches and regional offices to approach donors in a coordinated manner.

12. In addition, though UN-Habitat explained that the entity had rolled out an online training course for resource mobilization, the Board found there was no follow-up action to ensure that staff took the training course. As a result, capacity-building training for UN-Habitat staff was not conducted as required and planned. Moreover, management explained that the committee established in 2017 to discuss issues related to resource mobilization met once in September 2017, and not on a quarterly basis.

13. Management explained that the accounts to access webinar training courses on resource mobilization were set up for all staff working at headquarters and each of the regional offices. However, during its visits to country offices, the Board noted that access to webinar and training were not provided for all country offices as originally planned. While the head of the Donor Relations and Income Management Unit attended the Resource Alliance's International Fundraising Congress and posted all training material from that event on the entity's intranet and on its donor information system, the Board is of the opinion that the training course on income and donor relations needs to be conducted and extended to the lower levels (i.e., the country level).

14. The Board is of the view that proper resource mobilization coordination and capacity-building programmes for coordinators and programme management specialists are an important way to increase the donor base as well as to enhance revenue collection.

15. **The Board recommends that UN-Habitat: (a) ensure capacity-building programmes are conducted for all staff who have resource mobilization responsibilities at the country and regional levels; and (b) develop policy guidelines and circulate them to the regional and country offices as required under the results framework for the donor relations and income strategy.**

Project implementation started before Project Advisory Group approval

16. The UN-Habitat policy on project-based management of 22 November 2012 requires the review and approval of substantive and financial aspects of project documents by the Project Advisory Group prior to the signing of funding agreements. The Board reviewed the project formulation and approval processes in the Project Accrual and Accountability System, an application used to record, monitor and control project implementation. The Board noted that of the 20 ongoing projects worth $15.78 million at the country offices in Colombia and Brazil, 4 projects worth $2.34 million were approved by the Project Advisory Group after the funding agreements had been signed. For example, the funding agreement for the project entitled "Territorializing the city prosperity index in the metropolitan area of Bucaramanga", in Colombia, was signed on 19 December 2016, before the Project Advisory Group approved it on 16 April 2017.

17. Management stated that while project documents were approved after the start of the projects, project concepts were approved prior to the signing of funding agreements. Management also stated that UN-Habitat had redesigned and enhanced its procedures governing the sequence of logical steps in the project approval process and had set them up in Umoja in December 2017.

18. While noting the explanations of management, the Board is of the opinion that approval by the Project Advisory Group was necessary, because the policy on project-based management does not provide exceptions for the review and endorsement of

the project documents. The Board is of the view that the submission of project documents to the Project Advisory Group for retrospective approval after funding agreements have been signed and project implementation has begun undermines the Group's role as a control mechanism for ensuring that risk mitigation strategies are identified during project formulation in line with the results-based management approach. Retrospective approval would also create difficulties if the Group's review identified changes that needed to be made to the signed agreements. The steps in the project approval phase need automation to guarantee approval before funding arrangements are signed.

19. **UN-Habitat agreed with the Board's recommendation that it ensure that substantive and financial aspects of project documents are reviewed and approved by the Project Advisory Group prior to the signing of funding agreements, as required by the UN-Habitat project-based management policy.**

4. Asset management

Weaknesses in asset management and controls

20. At the country office in Libya, the Board found that 26 assets worth $126,878.10 had been moved from the office rented by UN-Habitat to the Urban Planning Agency office as a result of the unstable security situation in the country. The Urban Planning Agency is a Government agency responsible for housing that works with UN-Habitat to facilitate urban improvement. An employee of UN-Habitat (now retired) gave the Chair of the Urban Planning Agency custody of the keys to the UN-Habitat office and to three motor vehicles, pending improvement of the security situation. However, the Board noted that paragraph 38 of the UN-Habitat Project Manual (2010) requires the Property Record Custodian, who is responsible for the custody of assets, to complete and maintain handover vouchers for assets returned or moved. The movement of assets from the UN-Habitat office to the Urban Planning Agency office was not supported by any handover voucher; in addition, the staff member involved in moving the assets from the rented office to the Urban Planning Agency office had already retired.

21. Management explained that UN-Habitat still had custody of those project assets and thus there was no need for handover vouchers. The assets are now stored by UN-Habitat in its main office within the Urban Planning Agency building. However, the Board is of the view that when the vehicles were moved to the Urban Planning Agency premises and the keys were handed over to its Chair, proper documents were supposed to be in place to support that arrangement. The Board is concerned by the fact that the UN-Habitat officer involved in the movement of assets had left the organization, and that there was no adequate documentation available to provide an audit trail and to clarify the nature of the arrangement, which therefore increased the risk of loss of assets.

22. **The Board recommends that UN-Habitat ensure documentation is in place whenever there is movement of assets in order to reduce the risk of losing assets.**

Inadequate performance and reporting of the impairment review test

23. UN-Habitat issued a memorandum dated 18 December 2017 to all its country offices in order to ensure proper impairment tests were conducted, in accordance with paragraph 16.2.5 of the United Nations policy framework for IPSAS (ST/IC/2013/36). When it reviewed the memorandum, the Board found that it did not provide detailed procedures on how impairment tests should be conducted to ensure uniformity and consistency. The Board also noted that the reporting format required the verification team to report whether or not an impairment review was conducted, but it did not provide guidance on how to report the outcomes of impairment reviews.

24. The physical verification reports for 2017 showed that impairment tests were conducted for 19 of 48 country offices. However, the Board found that the results of those tests were not available. In addition, nine country offices did not conduct impairment reviews, and another nine country offices did not state whether or not they had performed an impairment review. The Board further noted that 1 country office did not submit an assets verification report for 2017, whereas 10 offices had no assets that met the assets capitalization threshold.

25. Management explained that not all countries carried out impairment tests and reviews because the IPSAS policy framework required the review of indicators of impairment on assets with a net book value of at least $25,000. UN-Habitat had only 21 assets that met this threshold as at 31 December 2017. However, at the time of audit in May 2018, UN-Habitat could not demonstrate that all assets that had not been tested had values below the threshold.

26. UN-Habitat had not reported impairment losses for any of its assets since its adoption of IPSAS in 2014. The Board is of the view that no impairment losses have been reported owing to factors such as the inadequate capacity of staff participating in the exercise and a lack of detailed guidelines on how to conduct impairment reviews.

27. The Board is of the view that a well-designed and coordinated impairment review is important in order for UN-Habitat to ensure that assets are reported at their fair values.

28. **UN-Habitat agreed with the Board's recommendation that it enhance its impairment review exercise by developing a guideline that clearly narrates how impairment reviews should be conducted and reported.**

5. Implementing partners

Delay in releasing funds to implementing partners

29. The Board reviewed payments to all 18 implementing partners at the country offices in the Lao People's Democratic Republic and the Syrian Arab Republic, and noted delays in payments of first instalments to 7 implementing partners (2 in the Lao People's Democratic Republic and 5 in the Syrian Arab Republic) for periods ranging from 3 to 45 days after the signing of the agreements. Such a delay is contrary to implementing partner policy and cooperation agreements, which require the first instalment to be paid at the signing of the cooperation agreement and the second and third instalments to be paid within 30 days following a request for receipt of payment. The Board also noted cases in which the payment of second instalments to three implementing partners were delayed for periods ranging from 3 to 102 days, and one implementing parting received the third instalment after a delay of 104 days. For example, payment for the third instalment for project P1-33FWS-000082 in the Lao People's Democratic Republic was requested on 26 July 2016, but the funds were released on 8 December 2016, a delay of 104 days, while payment for the final instalment was requested on 17 October 2016 and was released on 1 February 2017, a delay of 76 days.

30. Management attributed the delays to reasons such as incomplete request documentation and incorrect vendor forms. Management added that the payment process, which involves UN-Habitat headquarters and the United Nations Office at Nairobi, is not under the full control of country offices. In addition, management of the country office in the Syrian Arab Republic explained that its programme, through the Regional Office for Arab States, raised the issue with management of UN-Habitat and the Management and Operations Division to establish a fast-track payment process for countries classified as high priority or in a state of emergency, such as

Iraq, the Syrian Arab Republic and Yemen. Furthermore, UN-Habitat stated that it was now working on an Internet portal intended to expedite and monitor payments to implementing partners.

31. While acknowledging the explanations provided regarding the causes of the delays, the Board is of the opinion that UN-Habitat needs to abide by the terms set out in the implementing partner policy and cooperation agreements, and complete all internal arrangements, including payment of instalments within 30 days, because the factors stated by management should have been considered when determining the payment period. The delays in releasing funds might hinder the timely implementation of the agreed activities.

32. **UN-Habitat agreed with the Board's recommendation that it: (a) ensure that funds are released to implementing partners on time so that the planned activities can be completed within the scheduled period; and (b) establish a risk-based fast-track payment process for emergency and high-priority countries, as proposed by the country office in the Syrian Arab Republic.**

6. Office administration

Inadequate controls in lease agreements

33. The Board reviewed lease agreements at five country offices[2] and noted the following deficiencies:

- The country office in Libya entered into a lease agreement for office and parking space with a company for a period of four months, from 15 December 2016 to 16 April 2017, at a monthly rent of $4,639. The lease was renewed on 22 May 2017 for another three months to 15 July 2017. However, both the first lease agreement and its extension were signed by an engineer who was not a staff member of UN-Habitat and had no delegated authority as required by the memorandum of the Executive Director of UN-Habitat dated 27 March 2014. UN-Habitat incurred the amount of $13,917 for the extension of the lease agreement from April to July 2017, although it did not occupy the building for that period. Management explained that all its lease agreements in Libya were being processed by the United Nations Development Programme (UNDP) in Libya and that the versions of the agreements at both the Regional Office for Arab States and UN-Habitat headquarters were not the complete copies endorsed by UNDP in Libya. Management further explained that the Regional Office would provide the complete lease agreement to the Board once it was retrieved from an archive; however, as of the end of the final audit in May 2018, the agreement had not been made available to the Board.

- The lease agreement for the country office in China had been terminated on 30 June 2017 following renovation of the rented building. Staff members were provided with a temporary office space on the premises of a private company. Management explained that before the agreement was terminated, the country office had signed a memorandum of understanding with a Government institution to provide office accommodation in a building of the Ministry of Housing and Urban-Rural Development. However, after signing the memorandum, the Government institution reported administrative difficulties with regard to hosting a United Nations agency in a ministry office space. As of the time of the finalization of the Board's interim audit in November 2017, the country office had not yet moved into the office accommodations offered by the Government institution. Management also explained that UN-Habitat was in the process of developing a project that would remove the regulatory hurdle that

[2] China, Colombia, the Lao People's Democratic Republic, Libya and the Syrian Arab Republic.

prohibited the country office from sharing premises with a Chinese ministry. If that project was not implemented, the Regional Office for Asia and the Pacific would rent an alternate office space near the Ministry.

34. The Board is of the view that the signing of a lease agreement on behalf of UN-Habitat by a non-staff member who has no delegated authority means that UN-Habitat will have no proper legal basis to protect its interests if a contractual dispute occurs. A lack of proper accommodations could also demoralize staff, jeopardize operations, expose important office information to unauthorized access and tarnish the image and reputation of UN-Habitat and the United Nations system.

35. **The Board recommends that UN-Habitat ensure that: (a) field offices comply with the delegation of authority as required by the memorandum of the Executive Director; and (b) the country office in China obtains appropriate office accommodations for its staff.**

Inadequate implementation of the disaster recovery and business continuity plan

36. During its audit of compliance with the UN-Habitat Information and Communication Technology Operating Guidelines at the six[3] country offices it visited, the Board identified the following deficiencies at two country offices which highlight a need for management intervention.

37. The country office in Colombia performs backups of data on a weekly basis. However, the backups are done through a server and a hard drive located within the office instead of at an off-site backup facility, as required by section 7 of the UN-Habitat Information and Communication Technology Operating Guidelines. In addition, the office uses Google Drive (an external cloud solution) to save and maintain all working documents instead of a safer physical location outside the duty station. Furthermore, the country office had no documented disaster recovery and business continuity plan. UN-Habitat management explained that weekly backups and the use of Google Drive served the same purpose as an external backup. The Board is of the view that the use of Google Drive to save official information violates the internally established controls that require replication to a safer location outside the duty station. It therefore poses a risk to the confidentiality of sensitive information. Further, the lack of a disaster recovery and business continuity plan and the fact that all working documents are maintained in the same location limits the ability of the office to resume operations in case of disaster.

38. The country office in Brazil did not back up its data outside the office location. The office had no documented disaster recovery and business continuity plan to articulate procedures during a disaster that would reduce the impact of adverse events and enable the organization to rapidly resume its functions after a disaster. The Board is of the view that the country office could consider using backup facilities at other United Nations agencies before setting up its own facilities.

39. **UN-Habitat agreed with the Board's recommendation that it ensure that the country offices in Colombia and Brazil: (a) find safer outside locations to store their backups, which can be accessed by staff during disasters; and (b) develop disaster recovery and business continuity plans.**

[3] Brazil, China, Colombia, the Lao People's Democratic Republic, Libya and the Syrian Arab Republic.

Lack of administrative policies, procedures and organizational structures for the new working arrangement at the Regional Office for Latin America and the Caribbean

40. During its visit to the country offices in Colombia and Brazil, the Board noted that the Regional Office for Latin America and the Caribbean had organized its operations as hubs rather than as offices that deal with just one country. In such an arrangement, a hub manages project portfolios in countries in which UN-Habitat has no physical presence. For example, the Colombia hub manages projects for Colombia and Ecuador, while the Brazil hub manages projects for Brazil and Argentina.

41. Management explained that the Regional Office was focusing on regionalizing its portfolio, supporting a network of well-distributed regional hubs (including Rio de Janeiro, Brazil; Mexico City; Port-au-Prince; Bogotá; and Panama City) as an alternative and more efficient way of organizing, rather than the traditional pyramidal organization of regional works led from only one hub. However, the Regional Office has no organizational structures for the new arrangement and it has yet to establish an administrative arrangement to provide guidance on the day-to-day management of hub operations.

42. According to management, the arrangement has not been officially documented, and thus there is no document that describes administrative arrangements under the new approach, which was adopted by the Regional Office in 2015.

43. While the Board did not identify any deficiency with the new approach, which aims to develop a more cost-efficient and fit-for-purpose way of providing technical cooperation services to Member States, it is of the opinion that the Regional Office needs to accelerate the preparation of a guiding administrative document in line with the new structure.

44. **The Board recommends that UN-Habitat establish management structures and administrative policies and procedures for the new hub arrangement that provide guidance on the day-to-day management of hub operations in the Regional Office for Latin America and the Caribbean.**

7. Implementation of the Anti-Fraud and Anti-Corruption Framework of the United Nations Secretariat

Inadequate implementation of the Anti-Fraud and Anti-Corruption Framework

45. Paragraph 20 of the Anti-Fraud and Anti-Corruption Framework of the United Nations Secretariat (ST/IC/2016/25) states that every manager in the Secretariat is responsible for identifying and mitigating the risks that might affect the operations under his or her responsibility. The Board tested UN-Habitat compliance with the Framework and found that UN-Habitat had made progress towards its implementation. For instance, UN-Habitat enhanced staff awareness related to the detection of and response to fraud and corruption.

46. However, the Board noted the following areas in need of management attention with regard to the implementation of the Framework:

- In 2017, the Management Committee approved a mandatory anti-fraud and anti-corruption online training course for United Nations staff. However, as of the time of audit (May 2018), UN-Habitat had not yet set deadlines for staff members to complete the course. The Board also found that UN-Habitat did not track which staff members had already completed the training course. Management explained that the anti-fraud and anti-corruption online training course was not mandatory for all staff. The Board notes that the Human Resources Portal indicates that the training course is mandatory.

- The enterprise risk management guidelines issued in April 2015 did not consider fraud as one of the corporate risks. As a result, no risk assessments or mitigation measures have occurred, and the current updated project risk management guide does not consider fraud risk either.

47. The Board is of the view that the failure to set a deadline for staff members to complete the mandatory training course on anti-fraud and anti-corruption measures and the failure to include fraud risk in the project risk management guide may have a negative impact on the identification, mitigation and detection of fraud risks.

48. **UN-Habitat agreed with the Board's recommendation that it: (a) set a deadline for staff members to complete the mandatory training course on anti-fraud and anti-corruption; and (b) include information on fraud and corruption in the project risk management guide.**

8. Human resources management

Engaging individual contractors and consultants in performing core activities

49. The Board reviewed the contracts of consultants and staff information at six[4] country offices and found that at the country office in Colombia core activities, including project management, financial management and procurement management, were performed by consultants. That is contrary to the administrative instruction on consultants and individual contractors of 19 December 2013 (ST/AI/2013/4).

50. Management explained that the use of consultants was a result of financial constraints and that the hub did not receive enough voluntary contributions to enable it to finance all such posts. It further informed the Board that UN-Habitat currently uses consultants, non-staff personnel and staff personnel in its staffing options and that it was in the process of developing formal guidelines to be used for each option. While noting management responses, the Board is of the view that the Regional Office for Latin America and the Caribbean, in collaboration with headquarters, should reassess its staff options with a view to ensuring that posts of a continuing nature are assigned to permanent staff, as required by the administrative instruction.

51. **UN-Habitat agreed with the Board's recommendation that the Regional Office for Latin America and the Caribbean develop an action plan to ensure that core activities are performed by staff members.**

Selection of consultants and individual contractors outside rosters

52. Section 4.1 of the United Nations administrative instruction on consultants and individual contractors requires a roster of consultants and individual contractors to be maintained and used in the selection process. The purpose of the roster is to provide easy access to a screened pool of individuals who have a proven record of experience. Candidates on the roster should be screened for qualifications, references and prior work experience.

53. The Board tested UN-Habitat compliance with the administrative instruction with regard to the selection of consultants and individual contractors, and discovered that of the 14[5] consultants and individual contractors sampled, only 2 (14 per cent) had been selected from the roster, while the remaining 12 (86 per cent) were not listed on the roster. The Board also found that in some cases consultants had been selected to perform services that could have been done by consultants who were on the roster. For example, a consultant who was not on the roster was selected for urban planning

[4] Brazil, China, Colombia, the Lao People's Democratic Republic, Libya and the Syrian Arab Republic.

[5] From a population of 208 consultants and individual contractors.

and design services, while there were 87 consultants on the roster who had similar qualifications. Management did not give reasons for selecting consultants and individual contractors who were not on the roster.

54. The Board is of the view that the selection of a consultant or individual contractor who is not on a roster is contrary to the administrative instruction on consultants and individual contractors. It also undermines the purpose of developing a roster of consultants and individual contractors, as it could involve the unnecessary utilization of resources to search for new consultants.

55. **The Board recommends that UN-Habitat comply with the administrative instruction on consultants and individual contractors (ST/AI/2013/4) by utilizing the roster in the selection of consultants and individual contractors to ensure that competent and experienced consultants and individual contractors are selected.**

9. Results-based management

Inadequate monitoring and reporting

56. From the review of project documents on monitoring and reporting and the entity's biennial programme of work, the Board noted that the following areas need management intervention for improvement:

- Three of the six projects reviewed by the Board at the country offices of the Lao People's Democratic Republic and China had no logical framework analyses of projects in their quarterly implementation reports, contrary to paragraph 3.2.6 of the UN-Habitat handbook on results-based management of 2014. In the absence of an analysis of logical framework indicators, it becomes difficult to evaluate project results. In addition, the three projects had no financial reports showing activities, actual expenditures or budgets, and two of the six projects had no quarterly progress reports, as required by the project documents.
- The Brazil country office did not prepare an annual workplan for the implementation of its activities, contrary to paragraph 2.2.1 of the UN-Habitat handbook on results-based management. In addition, as of November 2017 the country office had not implemented any of the three activities planned for its 2016–2017 programme of work.

57. Management explained that UN-Habitat was in the process of enhancing the Project Accrual and Accountability System, which is used to record, monitor and control project implementation. The upgrade would incorporate an alert system to prompt project managers to monitor compliance with project reporting requirements, including annual workplans and the timely submission of quarterly project implementation reports. The upgrade was expected to be finished by the first quarter of 2018. Management further explained that the three project activities were not implemented owing to lack of funds.

58. While management responses have been noted, the Board is of the opinion that management needs to speed up the process to ensure that the analysis of the logical framework indicators is incorporated into the progress reports, and that annual workplans and financial and progress reports are prepared.

59. **UN-Habitat agreed with the Board's recommendation that it ensure that field offices: (a) adhere to the results-based management policy on reporting by incorporating analyses of the logical frameworks into their progress reports; and (b) prepare annual workplans for their activities in line with the approved programme of work for the biennium.**

C. Disclosures by management

60. UN-Habitat made the following disclosures relating to write-offs, ex gratia payments and cases of fraud and presumptive fraud.

1. Write-off of cash, receivables and property

61. UN-Habitat reported to the Board that there were no write-offs of cash, receivables and property during the year ended 31 December 2017.

2. Ex gratia payments

62. Management confirmed that UN-Habitat did not make any ex gratia payments in 2017.

3. Cases of fraud and presumptive fraud

63. In accordance with the International Standards on Auditing (ISA 240), the Board plans its audits of the financial statements so that it has a reasonable expectation of identifying material misstatements and irregularities, including those resulting from fraud. Our audit, however, should not be relied upon to identify all misstatements or irregularities. The primary responsibility for preventing and detecting fraud rests with management.

64. During the audit, the Board makes enquiries of management regarding its oversight responsibility for assessing the risks of material fraud and the processes in place for identifying and responding to the risks of fraud, including any specific risks that management has identified or has been brought to its attention. We also inquire whether management has any knowledge of any actual, suspected or alleged fraud; this includes enquiries of the Office of Internal Oversight Services. The additional terms of reference governing external audit include cases of fraud and presumptive fraud in the list of matters that should be referred to in its report.

65. In 2017, the Board did not identify any cases of fraud, and management reported one case of fraud or presumptive fraud to the Board, as detailed in annex II.

D. Acknowledgement

66. The Board wishes to express its appreciation for the cooperation and assistance extended to its staff by the Executive Director and staff members of the United Nations Human Settlements Programme.

(*Signed*) Rajiv **Mehrishi**
Comptroller and Auditor General of India
Chair of the Board of Auditors

(*Signed*) Mussa Juma **Assad**
Controller and Auditor General of the
United Republic of Tanzania
(Lead Auditor)

(*Signed*) Kay **Scheller**
President of the German Federal Court of Auditors

24 July 2018

Annex I

Status of implementation of recommendations up to the year ended 31 December 2016

No.	Audit report biennium/year and reference	Board's recommendations	UN-Habitat responses	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
1.	2010–2011 A/67/5/Add.8, chap. II, para. 24	Review the costs and benefits of introducing procedures to mitigate exchange rate risks and losses. In coordination with the United Nations Office at Nairobi, and subject to guidance from United Nations Headquarters, this could include commercially available solutions.	Under Umoja, the United Nations has set up a house bank that reduces the overall effect of foreign exchange fluctuations. UN-Habitat no longer participates in the euro cash pool. Furthermore, UN-Habitat has been focusing on the prompt identification and application of unapplied deposits to minimize the effect of foreign exchange fluctuations whenever deposits are received in currencies other than United States dollars.	As UN-Habitat is no longer participating in the euro cash pool, and the United Nations has introduced a house bank arrangement that reduces the overall effect of foreign exchange fluctuations, the Board considers the recommendation to be overtaken by events.				X
2.	2010–2011 A/67/5/Add.8, chap. II, para. 36	Set up specific arrangements to fund its liabilities for end-of-service and post-retirement benefits, for consideration and approval by its Governing Council and the General Assembly.	There is a corporate initiative under way to fund after-service health insurance, which is one type of post-retirement benefit. There is an awareness of the levels of liabilities and measures are being taken to fund them.	The Board will continue to monitor the funding initiatives established by the United Nations. UN-Habitat is still following up on this issue with United Nations Headquarters.		X		
3.	2012–2013 A/69/5/Add.9, chap. II, para. 39	(a) Set a timeline to implement the resolution of its Governing Council in identifying a suitable partner to run the Experimental Reimbursable Seeding Operations Trust Fund and draw up comprehensive terms of reference for adequate operations and risk management; (b) set up and document a clear monitoring and assurance framework for the use and accountability of Experimental Reimbursable Seeding Operations funds; and (c) closely follow up the repayment from each borrower and ensure they adhere to the repayment schedule.	(a) UN-Habitat updated its Committee of Permanent Representatives on 23 November 2012 on the status of the implementation of its Governing Council's resolution 23/10, reporting that it had been unable to find a suitable partner or structure to run the Experimental Reimbursable Seeding Operations portfolio. As a result, and also considering the small size of the portfolio, UN-Habitat would administer the operation of the portfolio in-house; (b) as part of that process, UN-Habitat undertook field mission visits in February and March 2015 to conduct surveys of individual beneficiaries of Seeding Operations funded projects in Nepal, Nicaragua and Uganda to ascertain whether individual loans had been used by end users for the intended purposes of the respective projects. The results gathered were satisfactory and demonstrated that the funds were	Management has started implementation of the recommendation by updating countries' permanent representatives. Therefore, it is awaiting the conclusions of the Governing Council. While UN-Habitat promised to provide an update on the findings, no update was provided as of May 2017. Repayments from borrowers are still being followed up.		X		

No.	Audit report biennium/year and reference	Board's recommendations	UN-Habitat responses	Board's assessment	Status after verification			
					Implemented	Under implementation	Not implemented	Overtaken by events
			being used for the intended purposes. One last mission to the Occupied Palestine Territories was due to take place in May 2015; (c) UN-Habitat has also closely monitored the loan repayment, which has been on schedule with no defaults to date. UN-Habitat will provide an update on the findings of the surveys of the project beneficiaries and the status of the loan repayment to the Board of Auditors.					
4.	2014 A/70/5/Add.9, chap. II, para. 44	Consider the possibility of speeding up the process of fixing electronic barcodes on all assets under its control to ensure the completeness of the property, plant and equipment register.	All field offices that buy and receive items are required to have barcode printers.	A memorandum was circulated in May 2017 by UN-Habitat headquarters regarding the buying of barcode printers. At all the country offices visited, the Board noted that printers had been procured.	X			
5.	2015 A/71/5/Add.9, chap. II, para. 25	(a) Follow up with the housing foundation to recover the outstanding loan amount; and (b) enhance the screening and monitoring mechanisms for the loan portfolio.	UN-Habitat informed the Board that of the $1 million Experimental Reimbursable Seeding Operations loan to the housing foundation, $250,000 had already been recovered and UN-Habitat was following up to recover another $248,705. The remaining balance of $501,295 would not be recovered and therefore was considered to be a loss or a bad debt.	Follow-up on the recovery of $248,705 is under way; proceeds may be realized after the liquidation process.		X		
6.	2015 A/71/5/Add.9, chap. II, para. 36	Update the Project Manual to conform to the requirements of the newly adopted IPSAS financial reporting framework, and the requirements of results-based management, and the Umoja enterprise resource planning solution.	UN-Habitat agreed with the Board's recommendation to update the Project Manual to conform to the requirements of the newly adopted IPSAS standards, results-based management and Umoja.	Management decided to withdraw the Project Manual and direct regional and country offices to adhere to Umoja and IPSAS.				X
7.	2015 A/71/5/Add.9, chap. II, para. 43	(a) Ensure that a formal application change control procedure in accordance with ISO 27002 is prepared; (b) review configuration of access in Project Accrual and Accountability System and ensure that it is in accordance with the defined role matrix; and (c) define and	A system developer assigned himself roles in different groups in order to test and assist staff. Currently, management is working with the United Nations Office at Nairobi on a new workflow to integrate the systems developers as check-in and check-out focal points to overcome that challenge.	Two online forms were developed, one for change management and another for user access. UN-Habitat is working in collaboration with the United Nations Office at	X			

No.	Audit report biennium/year and reference	Board's recommendations	UN-Habitat responses	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
		document a formal access request and approval procedures to ensure that access is granted according to the defined role matrix.		Nairobi to assign check-in and check-out focal points.				
8.	2015 A/71/5/Add.9, chap. II, para. 54	(a) Identify the risks that might affect project implementation in advance of the execution phase to minimize the negative effects of delaying the intended benefits for the societies involved; and (b) plan and manage the recruitment process in the field office to ensure that there is timely and adequate staffing for improved project performance.	Management assured the Board that the ongoing implementation of an enterprise risk management framework would include the identification, assessment and monitoring of projects to redress the noted anomaly.	The enterprise risk management framework was approved in April 2015 and has been circulated to the country offices visited.		X		
9.	2015 A/71/5/Add.9, chap. II, para. 60	(a) Prepare project annual workplans in accordance with the requirements of the Monitoring and Evaluation Guide; and (b) establish baselines and targets for all expected outputs, outcomes and indicators in the project annual workplans.	UN-Habitat agreed with the Board's recommendation to: (a) prepare project annual workplans; and (b) establish baselines and targets for all expected outputs, outcomes and indicators in the project annual workplans.	The project annual workplans were prepared and used in the implementation of the projects.	X			
10.	2016 A/72/5/Add.9, chap. II, para. 13	(a) Conduct enterprise resource management awareness training to enable the country offices staff to acquire the skills and knowledge necessary for effective implementation of enterprise risk management; and (b) prepare a risk register in accordance with the UN-Habitat enterprise risk management guidelines and summarize all important risks and response strategies in order to mitigate risks in project implementation.	UN-Habitat agreed with the Board's recommendation to: (a) conduct enterprise resource management awareness training to enable the staff at country offices to acquire the skills and knowledge necessary for effective implementation of enterprise risk management; and (b) prepare a risk register in accordance with the UN-Habitat enterprise risk management guidelines and summarize all important risks and response strategies in order to mitigate risks in project implementation.	At all of the country offices visited, the training that originally had been scheduled to be completed in November and December 2017 still had not been conducted. The Board sought confirmation in April 2018 to substantiate the existence of the risk register, but no documents were provided.		X		
11.	2016 A/72/5/Add.9, chap. II, para. 18	Appoint a focal point for the monitoring and coordination of issues of staff with disabilities within UN-Habitat.	Management of UN-Habitat received guidance from the United Nations Office at Nairobi and appointed a focal point on the issue of staff with disabilities.	UN-Habitat appointed a focal point to handle the interests of disabled staff on 2 May 2018.	X			

No.	Audit report biennium/year and reference	Board's recommendations	UN-Habitat responses	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
12.	2016 A/72/5/Add.9, chap. II, para. 23	(a) Formulate strategies to minimize consultancy costs in accordance with its strategic objectives for the period 2014-2019; and (b) include minimization of consultancy costs in the results framework for tracking and reporting periodically.	UN-Habitat stated that the use of consultants for project implementation was its strategy to ensure lower costs, greater expertise and more flexibility. Focus and direction was ensured through strict oversight of UN-Habitat substantive staff and the application of integrated approaches to urban planning. Management also explained that consultancy costs in the core budget were tightly controlled, and that non-staff costs had dropped by 45 per cent in the past five years.	Management efforts to minimize consultant costs did not yield the expected results, as costs continued to grow. In 2017, $33.98 million in costs were recorded, compared with $32.90 million in 2016.		X		
13.	2016 A/72/5/Add.9, chap. II, para. 31	With the support provided by the United Nations Office at Nairobi, UN-Habitat should review late travel cases on a regular basis and ensure that they are in line with the Secretariat administrative instruction on travel.	Management, in collaboration with the United Nations Office at Nairobi, has been ensuring that travel requests are submitted on time to allow enough time for processing in compliance with the administrative instruction on travel.	Assessments indicated that travel cases were being submitted for processing in a timely manner, except where there were exigent circumstances. Therefore, the Board considers the recommendation to be implemented.	X			
14.	2016 A/72/5/Add.9, chap. II, para. 36	(a) Strengthen monitoring to ensure that staff members comply with the Secretariat administrative instruction on travel by submitting expense reports within 14 days after returning from travel; and (b) institute a mechanism to monitor and recover outstanding advances.	UN-Habitat agreed to: (a) strengthen monitoring to ensure that staff members comply with the Secretariat administrative instruction on travel by submitting expense reports within 14 days after returning from travel; and (b) institute a mechanism to monitor and recover outstanding advances.	Controls have been instituted to ensure that a reminder is sent to the staff member one day after the travel end date. After 14 days, a second reminder is sent to notify the staff member that a deduction of the advance will occur on the date of the next payroll run if no expense report has been submitted. The deduction occurs if no expense report is uploaded.	X			
15.	2016 A/72/5/Add.9, chap. II, para. 40	(a) Strengthen leave monitoring mechanisms to ensure that staff members record and certify their leave balances in Umoja in a timely manner; and (b) review and verify the accuracy of leave balances of all staff members.	UN-Habitat agreed to: (a) strengthen leave monitoring mechanisms to ensure that staff members record and certify their leave balances in Umoja in a timely manner; and (b) review and verify the accuracy of leave balances of all staff members.	Staff members record their leave balances and certification is done by staff and supervisors, respectively.	X			

No.	Audit report biennium/year and reference	Board's recommendations	UN-Habitat responses	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
16.	2016 A/72/5/Add.9, chap. II, para. 44	(a) Prepare annual workplans and use the logical framework effectively in the process of project monitoring to show what results are accomplished and how they are achieved; (b) certify its interim reports, both financial and progress reports, and clearly indicate their approval dates.	Management explained that one of the projects uses a different reporting system: reporting is done periodically online through an existing joint reporting platform adopted by all agencies working on the project. Management explained that three of the projects do not require the certification or signature of the programme officer. Annual workplans are managed from headquarters and the country office is responsible only for providing input to be used in the preparation of a consolidated plan. The Project Advisory Group secretariat is revising the project development template to ensure there is a clearly stated annual workplan.	Inputs were submitted, a consolidated annual workplan was prepared and a project development template was developed.	X			
17.	2016 A/72/5/Add.9, chap. II, para. 48	Conduct regular updates of project information in the Project Accrual and Accountability System to maintain correct and consistent project records.	UN-Habitat attributed inconsistences in the project information to the migration from the Integrated Management Information System to Umoja, during which synchronization between Umoja and the Project Accrual and Accountability System was lost. Major updates of project details were carried out before the launch of the new Project Accrual and Accountability System.	The Project Accrual and Accountability System was updated and a new version was released. The new System is in use and the inconsistencies have been eliminated.	X			
18.	2016 A/72/5/Add.9, chap. II, para. 54	(a) Ensure that the effects of grant approval and implementing partners contributing to low project delivery are taken into consideration in the preparation of the annual workplans, and (b) strengthen supervision and monitoring by linking activity time frames with financial resources to ensure project completion within the planned time and budget.	Low project delivery at the Lebanon country office was the result of uncontrollable factors for both new and extension grant approvals that delayed project implementation. In addition, procurement processes for five of the projects (with a budget of $500,000) were at various stages and the respective obligations were expected to be settled before the end of 2017, which will effectively reduce unutilized funds. At the Nepal country office the low utilization rate was the result of the time lag between the actual expenditures incurred in the field offices and the updates made in Umoja, which take time because the expenditures are incurred through the United Nations Development Programme.	Entries were posted and underperformance was decreased. In addition, some activities were completed.	X			

No.	Audit report biennium/year and reference	Board's recommendations	UN-Habitat responses	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
19.	2016 A/72/5/Add.9, chap. II, para. 61	Expedite and improve communications and ensure that all projects eligible for closure are closed in compliance with the established policy, all liabilities are paid within the time frame and all unutilized funds are handled in accordance with the donor agreement.	UN-Habitat agreed to expedite and improve communications and ensure that all projects eligible for closure were closed in compliance with the established policy, all liabilities were paid within the time frame and all unutilized funds were handled according to the donor agreement.	The information was sent to the regional offices and used to close the projects.	X			
20.	2016 A/72/5/Add.9, chap. II, para. 65	Enhance monitoring to ensure that implementing partners comply with the agreed terms and conditions in the cooperation agreement and submit their final financial reports and audited financial statements on time.	At the Philippines country office, management attributed the delay to staff's limited knowledge of Umoja during the migration process and to Umoja blackouts, which caused delays in fund transfers to implementing partners and delays in the payments and receipt of the funds by the partners after elections. At the Nepal country office the delays were mainly due to the earthquake on 25 April 2015 and the national festivals of Dasain and Tihar in September and October 2015.	The activities of implementing partners were concluded and follow-up inquiries made by the Board in the countries it visited did not reveal any delays in the submission of financial reports.	X			
21.	2016 A/72/5/Add.9, chap. II, para. 70	Strengthen budget monitoring at the Somalia and the Sudan country offices to avoid overspending and to ensure compliance with the requirements of the Project Manual in controlling the budget.	The categorization of expenditures in Umoja was rectified and all expenditures were posted in the correct expenditure lines.	After the posting of other expenses, each expenditure line corresponds to the budget.	X			
22.	2016 A/72/5/Add.9, chap. II, para. 73	Comply with all agreed terms and conditions in contract agreements to avoid misunderstandings with donors.	UN-Habitat agreed with the Board's recommendation to comply with all agreed terms and conditions in contract agreements to avoid misunderstandings with donors.	Management commitments have not materialized. As of the end of 2017, amounts were still outstanding.		X		
23.	2016 A/72/5/Add.9, chap. II, para. 74	Strengthen monitoring of the implementation projects funded by conditional agreements in order to ensure that revenue is realized after fulfilling the conditions and to reduce the amount of liability in the financial statements.	UN-Habitat agreed with the Board's recommendation to strengthen monitoring of the implementation projects funded by conditional agreements in order to ensure that revenue was realized after fulfilling the conditions and that the amount of liability in the financial statements was reduced.	Management commitments have not materialized. As of the end of 2017, amounts were still outstanding.		X		
Total					**23**	**13**	**8**	**2**
Percentage					**100**	**56**	**35**	**9**

Annex II

Cases of fraud and presumptive fraud

No.	*Location of unit*	*Date of occurrence*	*Date reported or detected*	*Case reference number and nature*	*Amount involved (United States dollars)*	*Description of the issue*	*Condition or control weakness that facilitated the issue*	*Remedial action against the person involved*	*Amount recovered (United States dollars)*	*Loss suffered*	*Management action to deter recurrence*
1	UN-Habitat country office in the Democratic Republic of the Congo	1 September 2016	15 November 2016	OIOS case number 0612/16	Not applicable	It was reported that a UN-Habitat staff member forged UN-Habitat documents attesting that his personal acquaintance, a non-United Nations staff member, was engaged with UN-Habitat as an individual consultant. The documents were fabricated to obtain an official United Nations identification document from the Department of Safety and Security at the United Nations Stabilization Mission in the Democratic Republic of the Congo. In addition, it was reported that the identification document was used with a fraudulent letter of introduction to assist the staff member's personal friend in obtaining an entry visa to the United States of America, and that the staff member was involved in the creation of fraudulent United Nations Volunteer documents. In its report No. 79/17, dated 31 July 2017, the Office of Internal Oversight Services (OIOS) found that the UN-Habitat staff member: (i) assisted a personal friend and non-United Nations staff member in obtaining an official United Nations identification document by misrepresenting/forging UN-Habitat documentation; (ii) provided his friend with unrestricted access to UN-Habitat resources; (iii) assisted his friend in applying for a visa to the United States by misrepresenting/forging UN-Habitat documentation; and (iv) was involved in the creation of fraudulent United Nations Volunteer documents.	[Not provided]	OIOS concluded that the staff member failed to observe the standards of conduct expected of a United Nations staff member and recommended that appropriate action be taken by UN-Habitat in relation to his conduct. OIOS also concluded that such conduct may warrant a referral to the national authorities of Guinea and the United States.	Not applicable	There was a significant adverse impact on the reputation of UN-Habitat in the Democratic Republic of the Congo, Guinea and the United States, and a misuse of office resources.	The case was referred to the Office of Human Resources Management of the Secretariat for appropriate disciplinary action. It was also referred to the Office of Legal Affairs of the Secretariat for possible referral to Guinea and the United States, as recommended by the OIOS report.

Chapter III
Certification of the financial statements

Letter dated 31 March 2018 from the Chief Finance Officer of the United Nations Office at Nairobi addressed to the Chair of the Board of Auditors

The financial statements of the United Nations Human Settlements Programme (UN-Habitat) for the year ended 31 December 2017 have been prepared in accordance with financial rule 106.1 of the Financial Regulations and Rules of the United Nations and rule 306.10 of the supplement to the Financial Regulations and Rules of the United Nations (ST/SGB/2015/4).

The summary of significant accounting policies applied in the preparation of these statements is included as notes to the financial statements. These notes, and the accompanying schedules, provide additional information and clarification of the financial activities undertaken by UN-Habitat during the period covered by these statements.

The certification function defined in financial rules 105.5 and 105.7 to 105.9 of the Financial Regulations and Rules of the United Nations is assigned to UN-Habitat. Responsibility for the accounts and the performance of the approving function, as defined in article VI and financial rule 105.6 of the Financial Regulations and Rules of the United Nations, is assigned to the United Nations Office at Nairobi.

In accordance with the authority assigned to me, I hereby certify that the appended financial statements of UN-Habitat for the year ended 31 December 2017 are correct.

(*Signed*) Keval **Vora**
Chief Finance Officer
United Nations Office at Nairobi

Chapter IV
Financial overview for the year ended 31 December 2017

A. Introduction

1. The Executive Director has the honour to submit herewith the financial report and the financial statements of the United Nations Human Settlements Programme (UN-Habitat) for the year ended 31 December 2017. The financial statements consist of five statements and notes to the financial statements. In accordance with financial rule 106.1, these financial statements were transmitted to the Board of Auditors on 31 March 2018.

2. UN-Habitat is the specialized programme for sustainable urbanization and human settlements in the United Nations system. The mandate of the Programme is derived from General Assembly resolution 3327 (XXIX), by which the Assembly established the United Nations Habitat and Human Settlements Foundation; resolution 32/162, by which the Assembly established the United Nations Centre for Human Settlements (Habitat); and resolution 56/206, by which the Assembly elevated the United Nations Centre for Human Settlements to the United Nations Human Settlements Programme.

3. Regular budget funding, insofar as it relates to UN-Habitat, is included in Volume I, a related party (A/73/5 (Vol. I)), but for completeness has also been included in these financial statements.

4. The financial statements and schedules, as well as the notes thereon, are an integral part of the financial report.

B. Financial statements prepared in accordance with the International Public Sector Accounting Standards

5. In accordance with the International Public Sector Accounting Standards (IPSAS), a complete set of financial statements has been prepared, as follows:

(a) *Statement I: statement of financial position*. This statement shows the financial status of UN-Habitat as at 31 December 2017 by reporting the overall value of its assets and liabilities. It provides information about the extent to which resources are available for UN-Habitat to continue delivering partner services in the future;

(b) *Statement II: statement of financial performance*. This statement measures the net surplus or deficit as the difference between revenues and the corresponding expenses incurred. The net surplus or deficit is a useful measure of the overall financial performance of UN-Habitat and indicates whether the organization achieved its self-financing objective for the period;

(c) *Statement III: statement of changes in net assets*. This statement reports all changes in the value of assets and liabilities, including those excluded from the statement of financial performance, for example, actuarial adjustments to employee liabilities and fair value adjustment on available-for-sale financial instruments;

(d) *Statement IV: statement of cash flows*. This statement reflects the changes in the cash position of UN-Habitat by reporting the net movement of cash, classified by operating and investing activities. The ability of UN-Habitat to generate cash liquidity is an important aspect in assessing its financial resilience. For a more complete picture of the organization's ability to draw upon its cash balances, investments also need to be taken into account;

(e) *Statement V: statement of comparison of budget and actual amounts*. This statement compares the actual operational result with the main budget previously approved by the Governing Council of the United Nations Human Settlements Programme and the General Assembly;

(f) *Notes to the financial statements*. The financial statements are supported by notes that assist users in understanding UN-Habitat and comparing it with other entities. The notes include UN-Habitat accounting policies and other additional information and explanations.

6. This is the fourth year for which the financial statements of UN-Habitat have been prepared in accordance with IPSAS. To support continued IPSAS compliance, the organization has deployed an IPSAS sustainability plan with ongoing work on five major components, which have been identified as the core pillars for IPSAS sustainability, namely:

(a) Management of the benefits of IPSAS: this entails tracking and compiling IPSAS benefits and examining ways of using IPSAS-triggered information to better manage the organization;

(b) Strengthening of internal controls: this includes the deployment and ongoing management of the framework that will support a statement on internal controls;

(c) Management of the IPSAS regulatory framework: this includes active participation in the work of the IPSAS Board to formulate new International Public Sector Accounting Standards, or change existing standards, and the related update of the United Nations Policy Framework for IPSAS, financial rules and guidance, as well as the related changes to systems and processes;

(d) Maintenance of the integrity of Umoja as the backbone for IPSAS-compliant accounting and reporting: work in this area includes ensuring IPSAS-compliant processes for new programmes and activities and automating the production of financial statements through the use of Umoja;

(e) Continued IPSAS training and the deployment of a skills strategy that will support a strengthened finance function.

C. Overview of the financial statements for the year ended 31 December 2017

7. Statements I to IV show the consolidated figure for all activities of UN-Habitat, comprising the non-earmarked funds, the earmarked funds and end-of-service and retirement benefits for the year ended 31 December 2017.

8. The non-earmarked funds of UN-Habitat comprise the Foundation non-earmarked fund, the regular budget fund and the programme support fund. Foundation General Purpose resources are non-earmarked voluntary contributions by Member States to the UN-Habitat Foundation, while regular budget resources represent subventions appropriated from Member States' assessed contributions. Earmarked funds are voluntary contributions towards the Foundation Special Purpose and technical cooperation accounts.

9. Statement V reports on all segments except the programme support and end-of-service and post-retirement benefits. This statement is prepared on a budget basis.

10. Comparison between the year ended 31 December 2016 and the current reporting date is provided.

Financial performance

General overview

11. Table IV.1 shows a snapshot of the performance of UN-Habitat in all the segments in 2017. A total deficit of $28.7 million was realized in 2017 as a result of total net revenue of $168.8 million (gross: $182.5 million) received, against which total net expenditure of $197.5 million (gross: $211.2 million) was reported. Gross revenue of $182.5 million includes a core component of $29.0 million (15.9 per cent), earmarked revenue of $151.8 million (83.2 per cent) and end-of-service and post-retirement benefits income of $1.7 million (0.9 per cent). Gross expenditure of $211.2 million comprises $33.1 million (15.7 per cent) of core expenses, $175.7 million (83.2 per cent) of earmarked expenses and $2.4 million (1.1 per cent) of end-of-service and post-retirement benefits expenses.

Table IV.1
Summary financial performance for the period ended 31 December 2017 by segment

(Millions of United States dollars)

	Revenue	*Expenses*	*Surplus (deficit)*
Foundation non-earmarked	5.4	9.2	(3.8)
Regular budget	13.6	13.6	–
Programme support	10.0	10.3	(0.3)
Subtotal, core funds	**29.0**	**33.1**	**(4.1)**
Foundation Special Purpose	35.1	47.6	(12.5)
Technical cooperation	116.7	128.1	(11.4)
Subtotal, earmarked funds	**151.8**	**175.7**	**(23.9)**
End-of-service and post-retirement benefits	1.7	2.4	(0.7)
Subtotal, other	**1.7**	**2.4**	**(0.7)**
Total, all funds before elimination	**182.5**	**211.2**	**(28.7)**
Intersegment elimination	(13.7)	(13.7)	–
Total, all funds after elimination	**168.8**	**197.5**	**(28.7)**

Revenue

Table IV.2
Summary of revenue in 2017 by segment compared with 2016

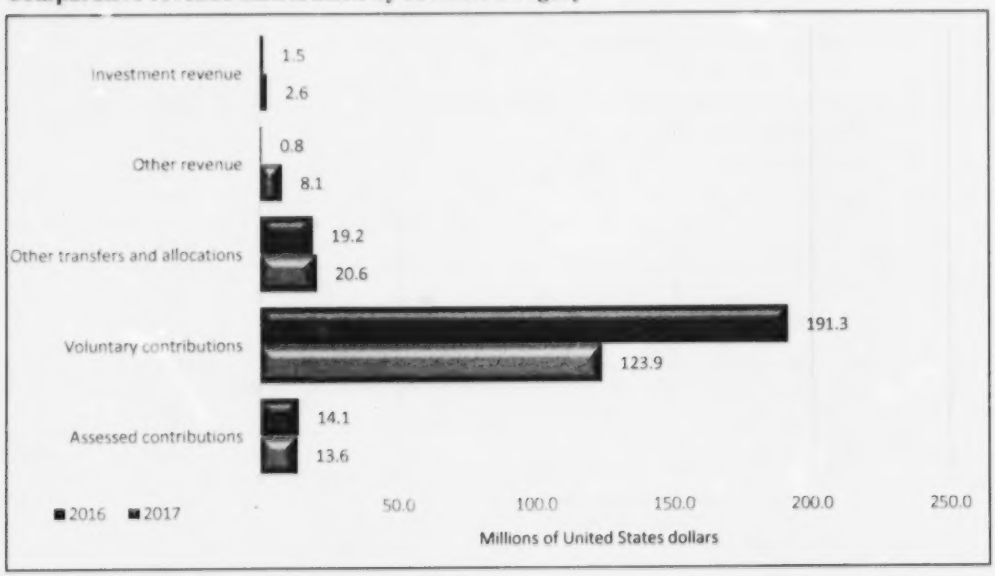
(Millions of United States dollars)

Year	*Foundation non-earmarked*	*Regular budget*	*Foundation Special Purpose*	*Technical cooperation*	*Programme support*	*End-of-service and post-retirement benefits*	*Intersegment elimination*	*Total revenue after elimination*
2017	5.4	13.6	35.1	116.7	10.0	1.7	(13.7)	168.8
2016	5.0	14.1	53.6	156.3	11.0	0.7	(13.8)	226.9

12. Figure IV.I shows the distribution of contributions by category. UN-Habitat receives its contributions from five main categories: assessed contributions; voluntary contributions; other transfers and allocations; investment revenue; and other revenue.

13. UN-Habitat saw a decrease in revenue in 2017 when consolidated across all funds. Total revenue for 2017 amounted to $168.8 million (2016: $226.9 million), which is a decrease of $58.1 million (25.6 per cent) compared with the revenue in 2016. The main source of revenue continues to be voluntary contributions from Member States, other government entities and other entities, which amounted to $123.9 million (2016: $191.3 million) and accounted for 73.4 per cent (2016: 84.3 per cent) of total revenue. The remaining 26.6 per cent (2016: 15.7 per cent) of the revenue was generated by the assessed contributions in the amount of $13.6 million (2016: $14.1 million), other transfers and allocations in the amount of $20.6 million (2016: $19.2 million), investment revenue in the amount of $2.6 million (2016: $1.5 million) and other revenue in the amount of $8.1 million (2016: $0.8 million).

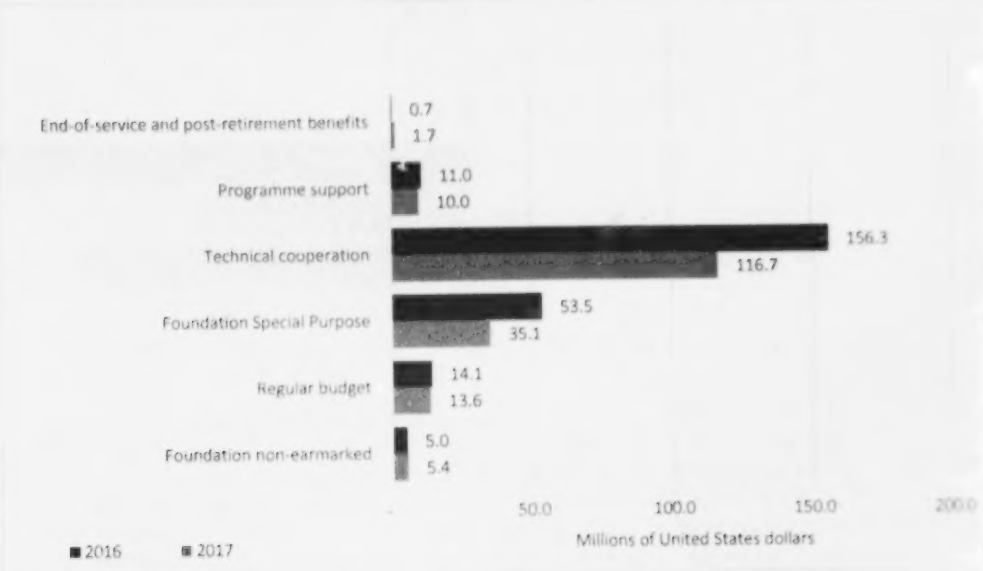
Figure IV.I
Comparative revenue distribution by revenue category



14. Revenue for non-earmarked Foundation General Purpose amounted to $5.4 million (2016: $5.0 million), which was an increase of $0.4 million (8.0 per cent) in 2017 compared with 2016. This figure comprises voluntary contributions in the amount of $2.7 million (2016: $2.3 million) and other revenue in the amount of $2.6 million (2016: $2.5 million). Overhead income of $9.7 million was received in 2017 from the implementation of the portfolio, compared with $10.8 million in 2016. Regular budget revenue amounted to $13.6 million (2016: $14.1 million). This was a reduction of $0.5 million (3.5 per cent) compared with 2016 owing to extraordinary expenditure related to the United Nations Conference on Housing and Sustainable Urban Development (Habitat III). Total revenue from Foundation Special Purpose earmarked funds amounted to $35.1 million (2016: $53.6 million), which was a decrease of $18.5 million (34.5 per cent) compared with 2016. Revenue from technical cooperation earmarked funds amounted to $116.7 million (2016: $156.3 million), which was a decrease of $39.6 million (25.3 per cent) compared with 2016. Other revenue sources contributed a total of $8.1 million (2016: $0.8 million).

15. The technical cooperation segment continues to be the main funding source of UN-Habitat, followed by Foundation Special Purpose. Both are earmarked sources of income and registered growth in the year against declines in regular budget and Foundation non-earmarked sources of funding.

Figure IV.II
Revenue distribution by source of funding (before elimination)



Expenditure

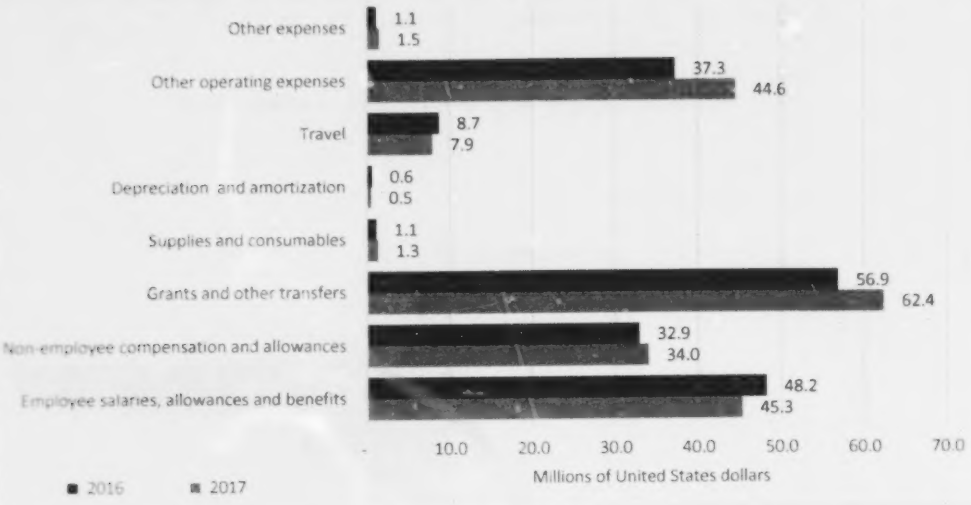
Table IV.3
Summary of expenditure by segment
(Millions of United States dollars)

Year	*Foundation non-earmarked*	*Regular budget*	*Foundation Special Purpose*	*Technical cooperation*	*Programme support*	*End-of-service and post-retirement benefits*	*Intersegment elimination*	*Total revenue after elimination*
2017	9.2	13.6	47.6	128.1	10.3	2.4	(13.7)	197.5
2016	9.1	14.1	56.2	110.0	9.0	2.2	(13.8)	186.8

16. Total expenses increased by $10.7 million to a total of $197.5 million (2016: $186.8 million) in 2017. The major categories of expenses included employee benefit expenses of $45.3 million (2016: $48.2 million), non-employee compensation costs of $34.0 million (2016: $32.9 million), grants and transfers amounting to $62.4 million (2016: $56.9 million) and other operating expenses of $44.6 million (2016: $37.3 million). These expenses are largely related to project delivery.

17. Remaining expenses totalling $11.2 million (2016: $11.5 million) related to supplies and consumables in the amount of $1.3 million (2016: $1.1 million), depreciation and amortization in the amount of $0.5 million (2016: $0.6 million), travel expenses in the amount of $7.9 million (2016: $8.7 million) and other expenses in the amount of $1.5 million (2016: $1.1 million).

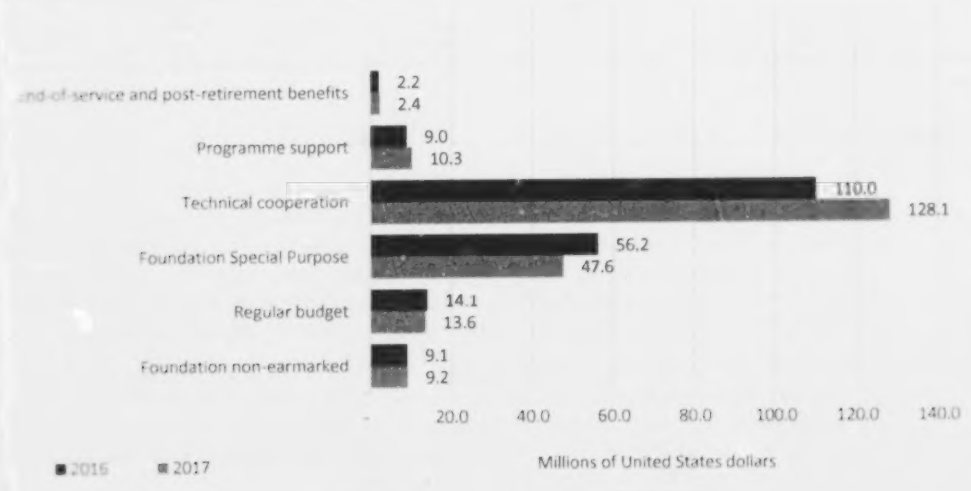
Figure IV.III
Expenditure distribution by category



18. Further analysis of the non-earmarked expenditures shows that a total of $9.2 million (2016: $9.1 million) related to Foundation non-earmarked funding, while $13.6 million (2016: $14.1 million) related to the regular budget and $10.3 million (2016: $9.0 million) related to programme support. For the earmarked funds, $47.6 million (2016: $56.2 million) related to Foundation Special Purpose funding, while technical cooperation expenditure amounted to $128.1 million (2016: $110.0 million). Other expenses relating to end-of-service and post-retirement benefits amounted to $2.4 million (2016: $2.2 million).

19. Figure IV.IV shows expenditure distribution between the six reporting segments.

Figure IV.IV
Expenditure distribution between segments before elimination



Financial position

Table IV.4
Summary of assets, liabilities and net assets by segment

(Millions of United States dollars and percentage)

	Foundation non-earmarked	*Foundation Special Purpose*	*Technical cooperation*	*Programme support*	*End-of-service and post-retirement benefits*	*Total*
Total assets	5 503	125 552	308 348	19 719	8 234	467 356
Percentage of total assets	1.2	26.9	65.9	4.2	1.8	100.0
Total liabilities	3 224	28 995	67 353	4 040	47 804	151 416
Percentage of total liabilities	2.1	19.1	44.5	2.7	31.6	100.0
Total net assets	2 279	96 557	240 995	15 679	(39 570)	315 940
Percentage of total net assets	0.7	30.6	76.3	4.9	(12.5)	100.0

Assets

20. At the end of 2017, UN-Habitat total assets after intersegment elimination of $7.7 million amounted to $459.7 million (2016: $444.3 million). Current assets represented $350.3 million (2016: $362.1 million), while non-current assets amounted to $109.4 million (2016: $82.2 million).

21. Voluntary contributions receivable amounted to $197.0 million (2016: $186.7 million), while cash and investments amounted to $213.5 million (2016: $200.9 million). The majority of the cash and investment assets were related to funds received for earmarked and multi-year projects.

22. Property of the organization at year-end had a net book value of $16.9 million (2016: $15.6 million).

23. Cash advances to implementing partners that had not been expensed at year-end totalled $19.5 million (2016: $15.5 million).

Liabilities and net assets

24. Total current and non-current liabilities stood at $143.7 million (2016: $94.4 million) at year-end, resulting in net assets of $315.9 million (2016: $349.9 million).

25. Table IV.5 summarizes other key indicators for UN-Habitat for the year ended 31 December 2017 compared with the year ended 31 December 2016.

Table IV.5
Other key indicators
(Millions of United States dollars)

	2017	*2016*	*Increase (decrease)*	*Percentage change*
Cash and cash equivalents	16.9	55.5	(38.6)	(69.5)
Short-term investments	149.6	98.2	51.4	52.3
Long-term investments	47.0	47.3	(0.3)	(0.6)
Total cash and investments	**213.5**	**201.0**	**12.5**	**6.2**
Voluntary contributions receivable	197.0	186.7	10.3	5.5
Other receivables	0.3	0.6	(0.3)	(50.0)
Total receivables	**197.3**	**187.3**	**10.0**	**5.3**
Advance transfers	19.5	15.5	4.0	25.8
Other assets	12.3	25.0	(12.7)	(50.8)
Accounts payable and accrued liabilities	14.3	17.9	(3.6)	(20.1)
Employee benefits liabilities	48.6	41.6	7.0	16.8
Other liabilities	80.8	35.0	45.8	130.8

D. End-of-service and post-retirement accrued liabilities

26. The UN-Habitat statements reflect the end-of-service and post-retirement benefits, comprising after-service health insurance liabilities, annual leave and repatriation benefits. It is to be noted that UN-Habitat makes monthly provisions for repatriation benefits at 8 per cent of net salary.

27. Accrued balances as at 31 December 2017 have been adjusted to reflect the estimated liabilities as at 31 December 2017, as reflected in the 2017 actuarial study carried out by a consulting firm engaged by the United Nations Secretariat on behalf of UN-Habitat. As a result of fully charging these liabilities as at 31 December 2017, an amount of $39.6 million of cumulative unfunded expenditure is included in the cumulative surplus/(deficit) amount (see note 4, end-of-service and post-retirement benefits segment).

Chapter V

Financial statements and related explanatory notes for the year ended 31 December 2017

United Nations Human Settlements Programme

I. Statement of financial position as at 31 December 2017

(Thousands of United States dollars)

	Note	*31 December 2017*	*31 December 2016*
Assets			
Current assets			
Cash and cash equivalents	6	16 904	55 540
Investments	7	149 645	98 158
Voluntary contributions receivable	8	151 851	167 577
Other receivables	9	122	277
Advance transfers	10	19 475	15 541
Other assets	11	12 285	24 999
Total current assets		**350 282**	**362 092**
Non-current assets			
Investments	7	46 970	47 265
Voluntary contributions receivable	8	45 176	19 074
Other receivables	9	223	298
Property, plant and equipment	13	16 982	15 561
Intangible assets	14	18	23
Total non-current assets		**109 369**	**82 221**
Total assets		**459 651**	**444 313**
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	15	14 291	17 894
Employee benefits liabilities	16	2 139	2 922
Other liabilities	18	80 819	34 967
Total current liabilities		**97 249**	**55 783**
Non-current liabilities			
Employee benefits liabilities	16	46 462	38 629
Total non-current liabilities		**46 462**	**38 629**
Total liabilities		**143 711**	**94 412**
Net of total assets and total liabilities		**315 940**	**349 901**
Net assets			
Accumulated surplus (deficit)	19	295 019	327 024
Reserves	19	20 921	22 877
Total net assets		**315 940**	**349 901**

The accompanying notes to the financial statements are an integral part of these financial statements.

United Nations Human Settlements Programme

II. Statement of financial performance for the year ended 31 December 2017

(Thousands of United States dollars)

	Note	*31 December 2017*	*31 December 2016[a]*
Revenue			
Assessed contributions	20	13 563	14 100
Voluntary contributions	20	123 962	191 286
Other transfers and allocations	20	20 610	19 239
Investment revenue	23	2 590	1 520
Other revenue	21	8 083	842
Total revenue		**168 808**	**226 987**
Expenses			
Employee salaries, allowances and benefits	22	45 281	48 260
Non-employee compensation and allowances	22	33 979	32 902
Grants and other transfers	22	62 365	56 898
Supplies and consumables	22	1 321	1 060
Depreciation	13	498	626
Amortization	14	5	5
Travel	22	7 972	8 681
Other operating expenses	22	44 599	37 315
Other expenses	22	1 462	1 070
Total expenses		**197 482**	**186 817**
Surplus/(deficit) for the period		**(28 674)**	**40 170**

[a] Comparatives have been restated to conform to current presentation.

The accompanying notes to the financial statements are an integral part of these financial statements.

United Nations Human Settlements Programme

III. Statement of changes in net assets for the year ended 31 December 2017[a]

(Thousands of United States dollars)

	Accumulated surpluses/(deficits) — unrestricted	*Reserves*	*Total*
Net assets, 1 January 2017	**327 024**	**22 877**	**349 901**
Adjustments to opening net assets	–	–	–
Opening net assets restated	**327 024**	**22 877**	**349 901**
Change in net assets			
Transfers to/from unrestricted/restricted/reserves	1 956	(1 956)	–
Actuarial gains/(losses)	(5 287)	–	(5 287)
Surplus/(deficit) for the year	(28 674)	–	(28 674)
Net assets, 31 December 2017	**295 019**	**20 921**	**315 940**

[a] See also note 19.

The accompanying notes to the financial statements are an integral part of these financial statements.

United Nations Human Settlements Programme

IV. Statement of cash flows for the year ended 31 December 2017

(Thousands of United States dollars)

	Note	*31 December 2017*	*31 December 2016[a]*
Cash flow from operating activities			
Surplus/(deficit) for the year		**(28 674)**	**40 170**
Non-cash movements			
Depreciation and amortization	13, 14	503	631
Transfers and donated property, plant and equipment and intangibles	13	(39)	(50)
Loss on disposal of property, plant and equipment		–	625
Actuarial (gain)/loss on employee benefits liabilities	16	(5 287)	(1 357)
Changes in assets			
(Increase)/decrease in voluntary contributions receivable	8	(10 376)	(26 655)
(Increase)/decrease in other receivables	9	230	359
(Increase)/decrease in advance transfers	10	(3 934)	2 387
(Increase)/decrease in other assets	11	12 714	(1 741)
Changes in liabilities			
Increase/(decrease) in accounts payable — other	15	(3 603)	(5 171)
Increase/(decrease) in advance receipts		–	(224)
Increase/(decrease) in employee benefits payable	16	7 050	3 082
Increase/(decrease) in other liabilities	18	45 852	(9 550)
Investment revenue presented as investing activities		(2 590)	(1 520)
Net cash flows from/(used in) operating activities	**23**	**11 846**	**986**
Cash flow from investing activities			
Pro rata share of net increases in the cash pool		(51 192)	19 986
Investment revenue presented as investing activities	23	2 590	1 520
Acquisition of property, plant and equipment	13, 14	(1 880)	(4 516)
Net cash flows from/(used in) investing activities		**(50 482)**	**16 990**
Cash flow from financing activities			
Adjustments to net assets		–	729
Net cash flows from/(used in) financing activities		**–**	**729**
Net increase/(decrease) in cash and cash equivalents		(38 636)	18 705
Cash and cash equivalents — beginning of year		55 540	36 835
Cash and cash equivalents — end of year	**6**	**16 904**	**55 540**

[a] Comparatives have been restated to conform to current presentation.

The accompanying notes to the financial statements are an integral part of these financial statements.

United Nations Human Settlements Programme

V. Statement of comparison of budget and actual amounts for the year ended 31 December 2017

(Thousands of United States dollars)

	Publicly available budget[a]				
Budget part	*Original biennial*	*Original annual*	*Final annual*	*Actual expenditure (budget basis)*	*Difference (percentage)*[b]
Foundation General Purpose					
Urban legislation, land and governance	3 113	1 556	404	393	2.7
Urban planning and design	4 237	2 119	1 319	1 335	1.2
Urban economy	3 349	1 675	36	34	(5.6)
Urban basic services	3 890	1 945	881	714	(19.0)
Housing and slum upgrading	3 638	1 819	223	231	3.5
Risk reduction and rehabilitation	4 426	2 213	548	437	(20.3)
Research and capacity development	4 453	2 226	324	309	(4.6)
Subtotal	**27 106**	**13 553**	**3 735**	**3 453**	**(7.6)**
Executive direction	13 776	6 888	4 217	3 325	(21.1)
Programme support	4 736	2 368	1 686	1 827	8.4
Total Foundation General Purpose	**45 618**	**22 809**	**9 639**	**8 605**	**(10.7)**
Foundation Special Purpose	101 297	50 649	40 333	37 098	(8.0)
Regular budget					
Sections 15 and 23	23 408	11 704	12 783	12 045	(5.8)
Development account	3 572	1 786	966	1 365	41.3
Habitat III	1 387	80	80	113	41.3
Total regular budget	**28 367**	**13 570**	**13 829**	**13 523**	**(2.2)**
Technical cooperation	312 909	156 454	130 786	119 138	(8.9)
Grand total	**488 191**	**243 482**	**194 587**	**178 364**	**(8.3)**

[a] Budget relates to the current year proportion of publicly available budgets which are approved for a two-year period.

[b] Actual expenditure (budget basis) less final budget. Differences greater than 10 per cent are considered in note 5.

The accompanying notes to the financial statements are an integral part of these financial statements.

United Nations Human Settlements Programme
Notes to the 2017 financial statements

Note 1
Reporting entity

The United Nations Human Settlements Programme and its activities

1. On 16 December 1974, the General Assembly adopted its resolution 3327 (XXIX), by which it created the United Nations Habitat and Human Settlements Foundation.

2. On 19 December 1977, the General Assembly adopted its resolution 32/162, by which it established a secretariat (the United Nations Centre for Human Settlements (Habitat)) and a Commission on Human Settlements.

3. On 21 December 2001, the General Assembly adopted its resolution 56/206, by which, with effect from 1 January 2002, it transformed the United Nations Centre for Human Settlements, including the United Nations Habitat and Human Settlements Foundation, into the United Nations Human Settlements Programme (UN-Habitat) and the Commission on Human Settlements into the Governing Council of the United Nations Human Settlements Programme. By the same resolution, the Assembly confirmed that the Executive Director of the United Nations Human Settlements Programme should be responsible for the management of the United Nations Habitat and Human Settlements Foundation and UN-Habitat would become an autonomous body and a separate reporting entity within the United Nations.

4. UN-Habitat is a separate financial reporting entity of the United Nations system owing to the uniqueness of the governance and budgetary process. Its financial statements comprise activities managed through various funds, including general and related funds, technical cooperation activities, general trust funds and other activities.

5. UN-Habitat is supported by a United Nations regular budget allocation and voluntary contributions from Governments, intergovernmental organizations, foundations, the private sector and other non-governmental sources. UN-Habitat headquarters is located on United Nations Avenue in Nairobi, Kenya, at the United Nations Office at Nairobi complex.

6. UN-Habitat undertook a major reform in 2011 to sharpen the programmatic focus of its mandate to address current strategic urbanization challenges and achieve more efficient and effective service delivery, with the goal of maintaining its role as the lead programme of the United Nations for providing guidance and technical support on sustainable urbanization and shelter, both globally and at the regional and country levels.

7. The main strategic objectives of UN-Habitat are delivered through seven subprogrammes and various policies:

(a) Urban legislation, land and governance, which provides policy and operational support to Governments and cities with respect to governance, legislation and land;

(b) Urban planning and design, which provides city and national governments with a set of tested approaches, guidelines and tools to support the management of growth and improved sustainability, efficiency and equity of cities through planning and design at different scales;

(c) Urban economy, which promotes urban strategies and policies that strengthen the capacity of cities to realize their potential as engines of economic development and enhance their contribution to employment and wealth creation;

(d) Urban basic services, which focuses on strengthening policies and institutional frameworks for expanding access to urban basic services, specifically targeted at the urban poor;

(e) Housing and slum upgrading, which advocates a twin-track approach to improve the supply and affordability of new housing alongside the implementation of citywide and national slum-upgrading programmes to improve housing conditions and quality of life for the urban poor;

(f) Risk reduction and rehabilitation, which is aimed at reducing urban risk and responding to urban crises and supports crisis-affected cities in terms of disaster prevention and response;

(g) Research and capacity development, which monitors and reports results of global monitoring and assessment on urbanization statistics and indicators to Governments and Habitat Agenda partners through its flagship reports.

The objectives of UN-Habitat are as follows:

(a) To improve the shelter conditions of the world's poor and to ensure the development of sustainable human settlements;

(b) To monitor and assess progress towards the attainment of the Habitat Agenda goals and the targets of the Millennium Declaration and the Johannesburg Plan of Implementation on slums, safe drinking water and sanitation;

(c) To strengthen the formulation and implementation of urban and housing policies, strategies and programmes and to develop related capacities, primarily at the national and local levels;

(d) To facilitate the mobilization of investments from international and domestic sources in support of adequate shelter, related infrastructure development programmes and housing finance institutions and mechanisms, particularly in developing countries and in countries with economies in transition.

Note 2
Basis of preparation and authorization for issue

8. In accordance with the Financial Regulations and Rules of the United Nations, the financial statements are prepared on an accrual basis in accordance with the International Public Sector Accounting Standards (IPSAS). They have been prepared on a going-concern basis and the accounting policies have been applied consistently in their preparation and presentation. In accordance with the requirements of IPSAS, these financial statements, which present fairly the assets, liabilities, revenue and expenses of the United Nations Human Settlements Programme, and the cash flows over the financial year, consist of the following:

(a) Statement I: statement of financial position;

(b) Statement II: statement of financial performance;

(c) Statement III: statement of changes in net assets;

(d) Statement IV: statement of cash flows;

(e) Statement V: statement of comparison of budget and actual amounts;

(f) Notes to the financial statements, comprising a summary of significant accounting policies and other explanatory notes;

(g) Comparative information in respect of all amounts presented in the financial statements indicated in (a) to (e) above and, where relevant, comparative information for narrative and descriptive information presented in the notes to these financial statements.

9. This is the fourth set of financial statements prepared in compliance with IPSAS, which includes the application of certain transitional provisions as identified below.

10. The financial statements are prepared for the 12-month period from 1 January to 31 December.

Going concern

11. The going-concern assertion is based on the approval by the General Assembly of the regular budget appropriations for the biennium 2018–2019, the positive historical trend of collection of assessed and voluntary contributions over the past years and the fact that the Assembly has taken no decision to cease the operations of UN-Habitat.

Authorization for issue

12. These financial statements are certified by the Chief Financial Officer of the United Nations Office at Nairobi and approved by the Executive Director of the United Nations Human Settlements Programme. In accordance with the Financial Regulations and Rules of the United Nations, these financial statements as at 31 December 2017 are to be transmitted to the Board of Auditors by 31 March 2018. In accordance with financial regulation 7.12, the reports of the Board of Auditors are to be transmitted to the General Assembly through the Advisory Committee on Administrative and Budgetary Questions, together with the audited financial statements authorized for issue on 30 July 2018.

Measurement basis

13. The financial statements are prepared using the historic cost convention except for certain assets as stated in the notes to the financial statements. Real estate assets are recorded at depreciated replacement cost and financial assets recorded at fair value through surplus or deficit.

Functional and presentation currency

14. The functional currency and the presentation currency of the organization is the United States dollar. The financial statements are expressed in thousands of United States dollars unless otherwise stated.

15. Transactions in currencies other than the functional currency (foreign currencies) are translated into United States dollars at the United Nations operational rate of exchange as at the date of the transaction. The United Nations operational rates of exchange approximate the spot rates prevailing at the dates of the transactions. At year-end, monetary assets and liabilities denominated in foreign currencies are translated at the United Nations operational rates of exchange. Non-monetary foreign currency denominated items that are measured at fair value are translated at the United Nations operational rate of exchange at the date on which the fair value was determined. Non-monetary items measured at historical cost in a foreign currency are not translated at year-end.

16. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognized in the statement of financial performance on a net basis.

Materiality and use of judgment and estimates

17. Materiality is central to the preparation and presentation of the organization's financial statements, and its materiality framework provides a systematic method in guiding accounting decisions relating to presentation, disclosure, aggregation, offsetting and retrospective versus prospective application of changes in accounting policies. In general, an item is considered material if its omission or its aggregation would affect the conclusions or decisions of the users of the financial statements.

18. Preparing financial statements in accordance with IPSAS requires the use of estimates, judgments and assumptions in the selection and application of accounting policies and in the reported amounts of certain assets, liabilities, revenues and expenses.

19. Accounting estimates and underlying assumptions are reviewed on an ongoing basis, and revisions to estimates are recognized in the year in which the estimates are revised and in any future year affected. Significant estimates and assumptions that may result in material adjustments in future years include: actuarial measurement of employee benefits; selection of useful lives and the depreciation/amortization method for property, plant and equipment/intangible assets; impairment of assets; classification of financial instruments; valuation of inventory; inflation and discount rates used in the calculation of the present value of provisions; and classification of contingent assets/liabilities.

International Public Sector Accounting Standards transitional provisions

20. IPSAS 17: Property, plant and equipment, allows a transitional period of up to five years for the full recognition of capitalized property, plant and equipment. The organization invoked the transitional provision and has not recognized assets where reliable data is in the process of being collected.

Future accounting pronouncements

21. The progress and impact of the following significant future IPSAS Board accounting pronouncements on the organization's financial statements continues to be monitored:

(a) Heritage assets: the objective of the project is to develop accounting requirements for heritage assets;

(b) Non-exchange expenses: the aim of the project is to develop a standard or standards that provide recognition and measurement requirements applicable to providers of non-exchange transactions, except for social benefits;

(c) Revenue: the aim of the project is to develop new standard-level requirements and guidance on revenue to amend or supersede those currently located in IPSAS 9: Revenue from exchange transactions; IPSAS 11: Construction contracts; and IPSAS 23: Revenue from non-exchange transactions (taxes and transfers);

(d) Leases: the objective of the project is to develop revised requirements for lease accounting, covering both lessees and lessors, in order to maintain alignment with the underlying International Financial Reporting Standards. The project will result in a new IPSAS that will replace IPSAS 13: Leases. Approval of a new IPSAS on leases is projected for June 2019;

(e) Public sector measurement: the objectives of this project include to: (i) issue amended IPSAS with revised requirements for measurements at initial recognition, subsequent measurement and measurement-related disclosure; (ii) provide more detailed guidance on the implementation of replacement cost and cost of

fulfilment and the circumstances under which these measurement bases will be used; and (iii) address transaction costs, including the specific issue of the capitalizing or expensing of borrowing costs;

(f) Infrastructure assets: the objective of the project is to research and identify issues that preparers face when applying IPSAS 17 to infrastructure assets, and to use this research to provide additional guidance on accounting for infrastructure assets.

Recent and future requirements of the International Public Sector Accounting Standards

22. The IPSAS Board has issued the following standards: IPSAS 34: Separate financial statements; IPSAS 35: Consolidated financial statements; IPSAS 36: Investments in associates and joint ventures; IPSAS 37: Joint arrangements; and IPSAS 38: Disclosure of interests in other entities, in 2015, effective 1 January 2017; IPSAS 39: Employee benefits, in 2016, effective 1 January 2018; and IPSAS 40: Public sector combinations, in 2017, effective 1 January 2018. The impact of these standards on the organization's financial statements and the comparative period therein has been evaluated to be as follows:

Standard	*Anticipated impact in the year of adoption*
IPSAS 34	The requirements for separate financial statements in IPSAS 34 are very similar to the requirements of the repealed IPSAS 6: Consolidated and separate financial statements. The introduction of IPSAS 34 with effect from 1 January 2017 has not affected the UN-Habitat financial statements.
IPSAS 35	IPSAS 35 still requires that control be assessed with regard to benefits and power, but the definition of control has changed and the standard now provides considerably more guidance on assessing control. The other key change introduced by IPSAS 35 is the elimination of the IPSAS 6 exemption from consolidation of temporarily controlled entities. A desk review and assessment of UN-Habitat control and interests in other arrangements was performed and confirmed the result of the previous review that there were no changes following the adoption of the new standard.
IPSAS 36	A key change introduced by IPSAS 36 is the elimination of the IPSAS 7: Investments in associates, exemption from application of the equity method where joint control or significant influence is temporary. A desk review and assessment of all of the arrangements between the United Nations and all of its activities was performed and confirmed the result of the previous review, that there is no existence of such temporary joint control or significant influence eliminated under IPSAS 36 in place of IPSAS 7. Furthermore, the scope of IPSAS 36 is limited to entities that are investors with significant influence over, or joint control of, an investee where the investment leads to the holding of a quantifiable ownership interest. The applicability of IPSAS 36 to UN-Habitat is therefore limited, as interests generally do not involve a quantifiable ownership interest.
IPSAS 37	IPSAS 37 introduces new definitions and has a significant impact on the way joint arrangements are classified and accounted for. These financial statements include joint venture arrangements accounted for using the equity method.

Standard	*Anticipated impact in the year of adoption*
	When such arrangements are formed under a binding agreement and assessed as being subject to joint control, they meet the IPSAS 37 definition of a joint arrangement. When assessed as being a joint venture, that is, the UN-Habitat interest gives rise to rights over net assets, IPSAS 37 requires the equity method to be used, and this will not represent a change in accounting policy. If there are rights to assets and obligations for liabilities, the interest is classified as a joint operation and UN-Habitat will account for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IPSAS applicable to the particular assets, liabilities, revenues and expenses. The United Nations carried out a system-wide review of the arrangements between its organizations and joint arrangements. That review, conducted by means of a survey, revealed no changes to the arrangements as previously concluded in the review performed by UN-Habitat.
IPSAS 38	IPSAS 38 increases the extent of disclosures required for interest in other entities and could have a significant impact on the UN-Habitat financial statements. A desk review and assessment of the impact of IPSAS 38 between the United Nations and all of its activities was performed and confirmed the result of the previous review that the adoption of the new standard had no impact.
IPSAS 39	Currently, IPSAS 39 will have no impact on the organization since the "corridor method" on actuarial gains or losses, which is being eliminated, has never been applied since the inception of IPSAS adoption in 2014. The organization does not have any plan assets; therefore, there is no impact from the application of the net interest approach prescribed by the standard. IPSAS 39 came into effect on 1 January 2018. Further analysis will be carried out in the future should the organization procure plan assets.
IPSAS 40	There is currently no impact on the organization from the application of IPSAS 40 as to date there have been no public sector combinations that fall under UN-Habitat. Any such impact of IPSAS 40 on the organization's financial statements will have been evaluated for application by the organization by 1 January 2018, the effective date of the standard, should such combinations occur.

Note 3
Significant accounting policies

Financial assets: classification

23. The organization classifies its financial assets in one of the following categories at initial recognition and re-evaluates the classification at each reporting date (see table below). The classification of financial assets depends primarily on the purpose for which the financial assets are acquired.

Categories of financial assets

Classification	*Financial assets*
Fair value through surplus or deficit	Investments in cash pools
Loans and receivables	Cash and cash equivalents and receivables

24. All financial assets are initially measured at fair value. The organization initially recognizes financial assets classified as loans and receivables on the date on which they originated. All other financial assets are recognized initially on the trade date, which is the date the organization becomes party to the contractual provisions of the instrument.

25. Financial assets with maturities in excess of 12 months as at the reporting date are categorized as non-current assets in the financial statements. Assets denominated in foreign currencies are translated into United States dollars at the United Nations operational rate of exchange prevailing as at the reporting date, with net gains or losses recognized in surplus or deficit in the statement of financial performance.

26. Financial assets at fair value through surplus or deficit are those that either have been designated in this category at initial recognition or are held for trading or are acquired principally for the purpose of selling in the short term. These assets are measured at fair value at each reporting date, and any gains or losses arising from changes in the fair value are presented in the statement of financial performance in the period in which they arise.

27. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recorded at fair value plus transaction costs and subsequently reported at amortized cost, calculated using the effective interest method. Interest revenue is recognized on a time-proportion basis using the effective interest rate method on the respective financial asset.

28. Financial assets are assessed at each reporting date to determine whether there is objective evidence of impairment. Evidence of impairment includes default or delinquency of the counterparty or permanent reduction in value of the asset. Impairment losses are recognized in the statement of financial performance in the year in which they arise.

29. Financial assets are derecognized when the rights to receive cash flows have expired or have been transferred and the organization has transferred substantially all risks and rewards of the financial asset.

30. Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Financial assets: investment in cash pools

31. The United Nations Treasury invests funds pooled from the United Nations Secretariat entities and other participating entities, including the organization. These pooled funds are combined in two internally managed cash pools. Participation in the cash pools implies sharing the risk and returns on investments with the other participants. Since the funds are commingled and invested on a pool basis, each participant is exposed to the overall risk of the investments portfolio to the extent of the amount of cash invested.

32. The organization's investment in the cash pools is included as part of cash and cash equivalents and short- and long-term investments in the statement of financial position, depending on the maturity period of the investments.

Financial assets: cash and cash equivalents

33. Cash and cash equivalents comprise cash at bank and on hand, and short-term, highly liquid investments with a maturity of three months or less from the date of acquisition.

Financial assets: receivables from non-exchange transactions — contributions receivable

34. Contributions receivable represent uncollected revenue from assessed and voluntary contributions committed to the organization by Member States, non-Member States and other donors on the basis of enforceable agreements. These non-exchange receivables are stated at nominal value, except for voluntary contributions receivable that will mature after more than 12 months, less impairment for estimated irrecoverable amounts, that is, the allowance for doubtful receivables. If deemed material, these long-term voluntary contributions receivable are reported at a discounted value calculated using the effective interest method.

35. Voluntary contributions receivable and other accounts receivable are subject to an allowance for doubtful receivables that is calculated at a rate of 25 per cent for outstanding receivables between one and two years, 60 per cent for those between two and three years and 100 per cent for those in excess of three years.

36. For assessed contributions receivable, the allowance is calculated at a rate of 20 per cent for those outstanding between one and two years, 60 per cent for those outstanding between two and three years, 80 per cent for those outstanding between three and four years and 100 per cent for those outstanding after more than four years.

Financial assets: receivables from exchange transactions — other accounts receivable

37. Other receivables include primarily amounts receivable for goods or services provided to other entities, amounts receivable for operating lease arrangements and receivables from staff. Receivables from other United Nations reporting entities are also included in this category. Material balances of other receivables and voluntary contributions receivable are subject to specific review and an allowance for doubtful receivables is assessed on the basis of recoverability and ageing accordingly.

Financial assets: loans receivable

38. Loans receivable consist of loans that have been given out to implementing partners under a revolving housing finance loan fund programme called Experimental Reimbursable Seeding Operations and are receivable in accordance with the amortization schedules. These loans are given at below-market rates.

Investments accounted for using the equity method

39. The equity method initially records an interest in a jointly controlled entity at cost, and is adjusted thereafter for the post-acquisition change in the organization's share of net assets. The organization's share of the surplus or deficit of the investee is recognized in the statement of financial performance. The interest is recorded under non-current assets unless there is a net liability position, in which case it is recorded under non-current liabilities.

Other assets

40. Other assets include education grant advances and prepayments, including advances for the United Nations Development Programme (UNDP) Service Clearing

Account, that are recorded as an asset until goods are delivered or services are rendered by the other party, at which point the expense is recognized.

Advance transfers

41. Advance transfers relate mainly to cash transferred to executing agencies/implementing partners as an advance in order for them to provide agreed goods or services. Advances issued are initially recognized as assets, and then expenses are recognized when goods are delivered or services are rendered by the executing agencies/implementing partners and confirmed by receipt of certified expense reports, as applicable. In instances where the partner has not provided financial reports as expected, programme managers make an informed assessment as to whether an accrual is needed. Balances due for a refund are transferred to other receivables, where necessary, and are subject to an allowance for doubtful receivables.

Inventories

42. Inventory balances are recognized as current assets and include the categories and subcategories set out in the table below.

Categories	*Subcategories*
Held for sale or external distribution	Books and publications, stamps
Raw materials and works in progress associated with items held for sale or external distribution	Construction materials/supplies, works in progress
Strategic reserves	Fuel reserves, bottled water and rations reserves
Consumables and supplies	Material holdings of consumables and supplies, including spare parts and medicines

43. The cost of inventory in stock is determined using the average price cost basis. The cost of inventories includes the cost of purchase plus other costs incurred in bringing the items to the destination and condition for use. Inventory acquired through non-exchange transactions (namely, donated goods) is measured at fair value as at the date of acquisition. Inventories held for sale are valued at the lower of cost and net realizable value. Inventories held for distribution at no/nominal charge or for consumption in the production of goods/services are valued at the lower of cost and current replacement cost.

44. The carrying amount of inventories is expensed when inventories are sold, exchanged, distributed externally or consumed by the organization. Net realizable value is the net amount that is expected to be realized from the sale of inventories in the ordinary course of operations. Current replacement cost is the estimated cost that would be incurred to acquire the asset.

45. Holdings of consumables and supplies for internal consumption are capitalized in the statement of financial position only when material. Such inventories are valued by the periodic weighted average or the moving average methods on the basis of records available in the inventory management systems, such as Galileo and Umoja, which are validated through the use of thresholds, cycle counts and enhanced internal controls. Valuations are subject to impairment review, which takes into consideration the variances between moving average price valuation and current replacement cost, as well as slow-moving and obsolete items.

46. Inventories are subject to physical verification on the basis of value and risk as assessed by management. Valuations are net of write-downs from cost to current

replacement cost/net realizable value, which are recognized in the statement of financial performance.

Heritage assets

47. Heritage assets are not recognized in the financial statements, but significant heritage assets are disclosed in the notes to the financial statements.

Property, plant and equipment

48. Property, plant and equipment are classified into different groupings of similar nature, functions, useful life and valuation methodologies as: vehicles; communications and information technology equipment; machinery and equipment; furniture and fixtures; and real estate assets (land, buildings, leasehold improvements, infrastructure and assets under construction). Recognition of property, plant and equipment is as follows:

(a) All property, plant and equipment other than real estate assets are stated at historical cost, less accumulated depreciation and accumulated impairment losses. Historical cost comprises the purchase price, any costs directly attributable to bringing the asset to its location and condition, and the initial estimate of dismantling and site restoration costs;

(b) Owing to the absence of historical cost information, real estate assets are initially recognized at fair value using a depreciated replacement cost methodology. Baseline costs per baseline quantity have been calculated by collecting construction cost data, utilizing in-house cost data (where it exists) or using external cost estimators for each catalogue of real estate assets. The baseline costs per baseline quantity adjusted for price escalation factor, size factor and location factor are applied to value the real estate asset and determine the replacement cost. Depreciation allowance deductions from the gross replacement cost to account for physical, functional and economic use of the assets have been made to determine the depreciated replacement cost of the assets;

(c) For property, plant and equipment acquired at nil or nominal cost, including donated assets, the fair value as at the date of acquisition is deemed to be the cost to acquire;

(d) Property, plant and equipment are capitalized when their cost is greater than or equal to the threshold of $5,000, or $100,000 for leasehold improvements and self-constructed assets.

49. Property, plant and equipment are depreciated over their estimated useful lives using the straight-line method up to their residual value, except for land and assets under construction, which are not subject to depreciation. Given that not all components of a building have the same useful lives or the same maintenance, upgrade or replacement schedules, significant components of owned buildings are depreciated using the components approach. Depreciation commences in the month in which the organization gains control over an asset in accordance with international commercial terms and no depreciation is charged in the month of retirement or disposal. Given the expected pattern of usage of property, plant and equipment, the residual value is nil unless residual value is likely to be significant. The estimated useful lives of property, plant and equipment classes are set out in the table below.

Estimated useful lives of property, plant and equipment classes

Class	*Subclass*	*Estimated useful life*
Communications and information technology equipment	Information technology equipment	4 years
	Communications and audiovisual equipment	7 years
Vehicles	Light-wheeled vehicles	6 years
	Heavy-wheeled and engineering support vehicles	12 years
	Specialized vehicles, trailers and attachments	6–12 years
	Marine vessels	10 years
Machinery and equipment	Light engineering and construction equipment	5 years
	Medical equipment	5 years
	Security and safety equipment	5 years
	Mine detection and clearing equipment	5 years
	Accommodation and refrigeration equipment	6 years
	Water treatment and fuel distribution equipment	7 years
	Transportation equipment	7 years
	Heavy engineering and construction equipment	12 years
	Printing and publishing equipment	20 years
Furniture and fixtures	Library reference material	3 years
	Office equipment	4 years
	Fixtures and fittings	7 years
	Furniture	10 years
Buildings	Temporary and mobile buildings	7 years
	Fixed buildings, depending on type	25, 40 or 50 years
	Major exterior, roofing, interior and services/utilities components, where component approach is utilized	20–50 years
	Finance lease or donated right-to-use buildings	Shorter of term of arrangement or life of building
Infrastructure assets	Telecommunications, energy, protection, transport, waste and water management, recreation, landscaping	Up to 50 years
Leasehold improvements	Fixtures, fittings and minor construction work	Shorter of lease term or 5 years

50. In exceptional cases, the recorded useful lives of some assets may be different from the useful lives prescribed at the asset subclass level as set out above (although they would remain within the range at asset class level), because when preparing the

2014 IPSAS opening balance a thorough review of the remaining economic useful lives of those assets was made and the result had been entered in the master record of the asset.

51. Where there is a material cost value of fully depreciated assets that are still in use, adjustments to accumulated depreciation and property, plant and equipment are incorporated into the financial statements to reflect a depreciation floor of 10 per cent of historical cost on the basis of an analysis of the classes and useful lives of the fully depreciated assets.

52. The organization elected to use the cost model for measurement of property, plant and equipment after initial recognition instead of the revaluation model. Costs incurred subsequent to initial acquisition are capitalized only when it is probable that future economic benefits or service potential associated with the item will flow to the organization and the subsequent cost exceeds the threshold for initial recognition. Repairs and maintenance are expensed in the statement of financial performance in the year in which they are incurred.

53. A gain or loss resulting from the disposal or transfer of property, plant and equipment arises where proceeds from disposal or transfer differ from its carrying amount. Those gains or losses are recognized in the statement of financial performance in other revenue or other expenses.

54. Impairment assessments are conducted during annual physical verification procedures and when events or changes in circumstances indicate that carrying amounts may not be recoverable. Land, buildings and infrastructure assets with a year-end net book value greater than $100,000 per unit are reviewed for impairment at each reporting date. The equivalent threshold for other property, plant and equipment items (excluding assets under construction and leasehold improvements) is $25,000.

Intangible assets

55. Intangible assets are carried at cost, less accumulated amortization and accumulated impairment loss. For intangible assets acquired at nil or nominal cost, including donated assets, the fair value as at the date of acquisition is deemed to be the cost to acquire. The threshold for recognition is $100,000 for internally generated intangible assets and $5,000 per unit for externally acquired intangible assets.

56. Acquired computer software licences are capitalized on the basis of costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with the development of software for use by the organization are capitalized as an intangible asset. Directly associated costs include software development employee costs, consultant costs and other applicable overhead costs.

57. Intangible assets with definite useful lives are amortized on a straight-line method over their estimated useful lives, starting from the month of acquisition or when the intangible assets become operational.

58. The useful lives of major classes of intangible assets have been estimated as shown in the table below.

Estimates of useful lives of major classes of intangible assets

Class	*Range of estimate of useful life*
Software acquired externally	3–10 years
Software developed internally	3–10 years
Licences and rights	2–6 years (period of licence/right)
Copyrights	3–10 years
Assets under development	Not amortized

59. Annual impairment reviews of intangible assets are conducted where assets are under construction or have an indefinite useful life. Other intangible assets are subject to impairment review only when indicators of impairment are identified.

Financial liabilities: classification

60. Financial liabilities are classified as "other financial liabilities". They include accounts payable, transfers payable, unspent funds held for future refunds, and other liabilities. Financial liabilities classified as other financial liabilities are initially recognized at fair value and subsequently measured at amortized cost. Financial liabilities with a duration of less than 12 months are recognized at their nominal value. The organization re-evaluates the classification of financial liabilities at each reporting date and derecognizes financial liabilities when its contractual obligations are discharged, waived, cancelled or expired.

Financial liabilities: accounts payable and accrued liabilities

61. Accounts payables and accrued liabilities arise from the purchase of goods and services that have been received but not paid for as at the reporting date. Payables are recognized and subsequently measured at their nominal value, as they are generally due within 12 months.

Financial liabilities: transfers payable

62. Transfers payable relate to amounts owed to executing entities/implementing agencies and partners and residual balances due to be returned to donors.

Advance receipts and other liabilities

63. Advance receipts relate to contributions or payments received in advance, assessed or voluntary contributions received for future years and other deferred revenue. Advance receipts are recognized as revenue at the start of the relevant financial year or on the basis of the organization's revenue recognition policies. Other liabilities include liabilities for conditional funding arrangements and other miscellaneous items.

Leases: the organization as lessee

64. Leases of property, plant and equipment where the organization has substantially all of the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the start of the lease at the lower of fair value or the present value of the minimum lease payments. The rental obligation, net of finance charges, is reported as a liability in the statement of financial position. Assets acquired under finance leases are depreciated in accordance with the organization's policy on property, plant and equipment. The interest element of the lease payment is charged

to the statement of financial performance as an expense over the lease term on the basis of the effective interest rate method.

65. Leases where all of the risks and rewards of ownership are not substantially transferred to the organization are classified as operating leases. Payments made under operating leases are charged to the statement of financial performance as an expense on a straight-line basis over the period of the lease.

Leases: the organization as lessor

66. The organization is the lessor for certain assets subject to operating leases. Assets subject to operating leases are reported within property, plant and equipment. Lease revenue from operating leases is recognized in the statement of financial performance over the lease term on a straight-line basis.

Donated rights to use

67. The organization occupies land and buildings and uses infrastructure assets, machinery and equipment through donated right-to-use agreements granted primarily by host Governments at nil or nominal cost. On the basis of the term of the agreement and the clauses on transfer of control and termination contained in the agreement, the donated right-to-use arrangement is accounted for as an operating lease or finance lease.

68. In the case of an operating lease, an expense and corresponding revenue equal to the annual market rent of similar properties is recognized in the financial statements. In the case of a finance lease (principally with a lease term of more than 35 years for premises), the fair market value of the property is capitalized and depreciated over the shorter of the useful life of the property or the term of the arrangement. If property is transferred with specific conditions, deferred revenue for the amount is recognized equal to the entire fair market value of the property (or share of the property) occupied by the organization, which is progressively recognized as revenue and offsets the corresponding depreciation charge. If property is transferred without any specific condition, revenue for the same amount is recognized immediately upon assuming control of the property. Donated right-to-use land arrangements are accounted for as operating leases where the organization does not have exclusive control over the land and/or title to the land is transferred under restricted deeds.

69. Long-term donated right-to-use building and land arrangements are accounted for as operating leases where the organization does not have exclusive control over the building and title to the land is not granted.

70. Where title to the land is transferred to the organization without restrictions, the land is accounted for as donated property, plant and equipment and recognized at fair value at the acquisition date.

71. The threshold for the recognition of revenue and expense is a yearly rental value equivalent to $5,000 for donated right-to-use premises and $5,000 for machinery and equipment.

Employee benefits

72. Employees comprise staff members, as described under Article 97 of the Charter of the United Nations, whose employment and contractual relationship with the organization are defined by a letter of appointment subject to regulations promulgated by the General Assembly pursuant to Article 101, paragraph 1, of the Charter. Employee benefits are classified into short-term benefits, long-term benefits, post-employment benefits and termination benefits.

Short-term employee benefits

73. Short-term employee benefits are employee benefits (other than termination benefits) that are payable within 12 months after the end of the year in which the employee renders the related services. Short-term employee benefits comprise first-time employee benefits (assignment grants), regular daily/weekly/monthly benefits (wages, salaries, allowances), compensated absences (paid sick leave, maternity/paternity leave) and other short-term benefits (death grant, education grant, reimbursement of taxes, home leave) provided to current employees on the basis of services rendered. All such benefits that are accrued but not paid are recognized as current liabilities within the statement of financial position.

Post-employment benefits

74. Post-employment benefits comprise the after-service health insurance plan and end-of-service repatriation benefits that are accounted for as defined-benefit plans, in addition to the pension through the United Nations Joint Staff Pension Fund.

Defined-benefit plans

75. The following benefits are accounted for as defined-benefit plans: after-service health insurance; repatriation benefits (post-employment benefits); and accumulated annual leave that is commuted to cash upon separation from the organization (other long-term benefits). Defined-benefit plans are those where the organization's obligation is to provide agreed benefits, and therefore the organization bears the actuarial risks. The liability for defined-benefit plans is measured at the present value of the defined-benefit obligation. Changes in the liability for defined-benefit plans, excluding actuarial gains and losses, are recognized in the statement of financial performance in the year in which they occur. The organization has elected to recognize changes in the liability for defined-benefit plans from actuarial gains and losses directly through the statement of changes in net assets. As at the end of the reporting year, the organization did not hold any plan assets as defined by IPSAS 25: Employee benefits.

76. The defined-benefit obligations are calculated by independent actuaries using the projected unit credit method. The present value of the defined-benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds with maturity dates approximating those of the individual plans.

77. After-service health insurance provides worldwide coverage for necessary medical expenses of eligible former staff members and their dependants. Upon end of service, staff members and their dependants may elect to participate in a defined-benefit health insurance plan of the United Nations, provided they have met certain eligibility requirements, including 10 years of participation in a United Nations health plan for those who were recruited after 1 July 2007 and 5 years for those who were recruited prior to that date. The after-service health insurance liability represents the present value of the share of the organization's medical insurance costs for retirees and the post-retirement benefit accrued to date by active staff. A factor in the valuation is to consider contributions by all plan participants in determining the organization's residual liability. Contributions from retirees are deducted from the gross liability and a portion of the contributions from active staff is also deducted to arrive at the organization's residual liability, in accordance with cost-sharing ratios authorized by the General Assembly.

78. Repatriation benefits: upon end of service, staff who meet certain eligibility requirements, including residency outside their country of nationality at the time of

separation, are entitled to a repatriation grant, which is based on length of service, and travel and removal expenses. A liability is recognized from when the staff member joins the organization and is measured as the present value of the estimated liability for settling these entitlements.

79. Annual leave: the liabilities for annual leave represent unused accumulated leave days that are projected to be settled through a monetary payment to employees upon their separation from the organization. The United Nations recognizes as a liability the actuarial value of the total accumulated unused leave days of all staff members, up to a maximum of 60 days (18 days for temporary staff) as at the date of the statement of financial position. The methodology applies a last-in-first-out assumption in the determination of the annual leave liabilities, whereby staff members access current period leave entitlements before they access accumulated annual leave balances relating to prior periods. Effectively, the accumulated annual leave benefit is accessed more than 12 months after the end of the reporting period in which the benefit arose and, overall, there is an increase in the level of accumulated annual leave days, pointing to the commutation of accumulated annual leave to a cash settlement at the end of service as the true liability of the organization. The accumulated annual leave benefit reflecting the outflow of economic resources from the organization at the end of service is therefore classified under the category of other long-term benefits, it being noted that the portion of the accumulated annual leave benefit that is expected to be settled through monetary payment within 12 months after the reporting date is classified as a current liability. In line with IPSAS 25, other long-term benefits must be valued similarly to post-employment benefits; therefore, the United Nations values its accumulated annual leave benefit liability as a defined, post-employment benefit that is actuarially valued.

Pension plan: United Nations Joint Staff Pension Fund

80. UN-Habitat is a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits to employees. The Fund is a funded, multi-employer defined-benefit plan. As specified in article 3 (b) of the regulations of the Fund, membership of the Fund shall be open to the specialized agencies and to any other international, intergovernmental organization that participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies.

81. The Pension Fund exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and costs to participating organizations. The organization and the Fund, in line with the other participating organizations, are not in a position to identify the organization's proportionate share of the defined-benefit obligation, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. Therefore, the organization has treated this plan as if it were a defined-contribution plan in line with the requirements of IPSAS 25. The organization's contributions to the Fund during the financial year are recognized as employee benefit expenses in the statement of financial performance.

Termination benefits

82. Termination benefits are recognized as an expense only when the organization is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate the employment of a staff member before the normal retirement date or provide termination benefits as a result of an offer made in order to encourage voluntary redundancy. Termination benefits to be settled within 12

months are reported at the amount expected to be paid. Where termination benefits fall due more than 12 months after the reporting date, they are discounted if the impact of discounting is material.

Other long-term employee benefits

83. Other long-term employee benefit obligations are benefits, or portions of benefits, that are not due to be settled within 12 months after the end of the year in which employees provide the related service.

84. Appendix D benefits: appendix D to the Staff Rules of the United Nations governs compensation in the event of death, injury or illness attributable to the performance of official duties on behalf of the United Nations.

Provisions

85. Provisions are liabilities recognized for future expenditure of uncertain amount or timing. A provision is recognized if, as a result of a past event, the organization has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. The amount of the provision is the best estimate of the expenditures expected to be required to settle the present obligation as at the reporting date. Where the effect of the time value of money is material, the provision is the present value of the amount required to settle the obligation.

Contingent liabilities

86. Any possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the organization are disclosed as contingent liabilities. Contingent liabilities are also disclosed where present obligations that arise from past events cannot be recognized because it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligations, or the amount of the obligations cannot be reliably measured.

87. Provisions and contingent liabilities are assessed continually to determine whether an outflow of resources embodying economic benefits or service potential has become more or less probable. If it becomes more probable that such an outflow will be required, a provision is recognized in the financial statements of the year in which the change of probability occurs. Similarly, where it becomes less probable that such an outflow will be required, a contingent liability is disclosed in the notes to the financial statements.

88. An indicative threshold of $10,000 applies in recognizing provisions and/or disclosing contingent liabilities in the notes to the financial statements.

Contingent assets

89. Contingent assets are possible assets that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the effective control of the organization. Contingent assets are disclosed in the notes to the financial statements when it is more likely than not that economic benefits will flow to the organization.

Commitments

90. Commitments are future expenses to be incurred by the organization on contracts entered into by the reporting date and that the organization has minimal, if any, discretion to avoid in the ordinary course of operations. Commitments include

capital commitments (amount of contracts for capital expenses that are not paid or accrued by the reporting date), contracts for the supply of goods and services that will be delivered to the organization in future periods, non-cancellable minimum lease payments and other non-cancellable commitments.

Non-exchange revenue: assessed contributions

91. Assessed contributions for the organization comprise the UN-Habitat regular budget allocation. Assessed contributions are assessed and approved for a budget period of one or more years. A one-year proportion of the assessed contributions is recognized as revenue at the beginning of that year. Assessed contributions include the amounts assessed to the Member States to finance the activities of the organization in accordance with the agreed scale of assessments. Revenue from assessed contributions from Member States is presented in the statement of financial performance.

Non-exchange revenue: voluntary contributions

92. Voluntary contributions and other transfers that are supported by legally enforceable agreements are recognized as revenue at the time at which the agreement becomes binding, which is the point at which the organization is deemed to acquire control of the asset. However, where cash is received subject to specific conditions or when contributions are explicitly given for a specific operation to commence in a future financial year, recognition is deferred until those conditions have been satisfied. Revenue will be recognized up front for all conditional arrangements up to the threshold of $50,000.

93. Voluntary pledges and other promised donations are recognized as revenue when the arrangement becomes binding. Pledges and promised donations, as well as agreements not yet formalized by acceptance, are disclosed as contingent assets. For unconditional multi-year agreements, the full amount is recognized as revenue when the agreement becomes binding.

94. Unused funds returned to the donor are netted against revenue.

95. Revenue received under inter-organizational arrangements represents allocations of funding from agencies to enable the organization to administer projects or other programmes on their behalf.

96. A direct cost recovery is charged to trust fund and other "extrabudgetary" activities (largely projects) to ensure that the additional costs of supporting activities financed from extrabudgetary contributions are not borne by assessed funds and/or other core resources that are central to the budget process at the United Nations Secretariat. The direct cost recovery is eliminated for the purposes of the preparation of financial statements, as disclosed in note 4 on segment reporting. The direct cost-recovery charge agreed with the donor as part of the budget of a project is included as part of voluntary contributions. It is expressed as a percentage of direct costs (actual expenditure and unliquidated obligations).

97. In-kind contributions of goods above the recognition threshold of $5,000 are recognized as assets and revenue once it is probable that future economic benefits or service potential will flow to the organization and the fair value of those assets can be measured reliably. Contributions in kind are initially measured at their fair value as at the date of receipt determined by reference to observable market values or by independent appraisals. The organization has elected not to recognize in-kind contributions of services but to disclose in-kind contributions of services above a threshold of $5,000 in the notes to the financial statements.

Exchange revenue

98. Exchange transactions are those in which the organization sells goods or services. Revenue comprises the fair value of consideration received or receivable for the sale of goods and services. Revenue is recognized when it can be reliably measured, when the inflow of future economic benefits is probable and when specific criteria have been met, as follows:

(a) Revenue from sales of publications, books and stamps by the United Nations Gift Centre is recognized when the sale occurs and risks and rewards have been transferred;

(b) Revenue from commissions and fees for technical, procurement, training, administrative and other services rendered to Governments, United Nations entities and other partners is recognized when the service is performed;

(c) Exchange revenue also includes income from the rental of premises, the sale of used or surplus property, services provided to visitors in relation to guided tours and income from net gains resulting from currency exchange adjustments;

(d) An indirect cost recovery called a "programme support cost" is charged to trust funds as a percentage of direct costs, including commitments and other "extrabudgetary" activities, to ensure that the additional costs of supporting activities financed from extrabudgetary contributions are not borne by assessed funds and/or other core resources of the Secretariat. The programme support cost is eliminated for the purposes of the preparation of financial statements, as disclosed in note 4, Segment reporting. The funding for the programme support cost charge agreed upon with the donor is included as part of voluntary contributions.

Investment revenue

99. Investment revenue includes interest income and the organization's net share of cash pool investment income and transaction costs associated with the operation of investments.

100. The net cash pool revenue includes any gains and losses on the sale of investments, which are calculated as the difference between the sales proceeds and book value. Transaction costs that are directly attributable to the investment activities are netted against revenue, and the net revenue is distributed proportionately to all cash pool participants on the basis of their average daily balances. The cash pool revenue also includes unrealized market gains and losses on securities, which are distributed proportionately to all participants on the basis of year-end balances.

Expenses

101. Expenses are decreases in economic benefits or service potential during the reporting year in the form of outflows or consumption of assets or incurrence of liabilities that result in decreases in net assets, and are recognized on an accrual basis when goods are delivered and services are rendered, regardless of the terms of payment.

102. Employee salaries include international, national and general temporary staff salaries, post adjustments and staff assessments. The allowances and benefits include other staff entitlements, including pension and insurance, staff assignment, repatriation, hardship and other allowances. Non-employee compensation and allowances consist of United Nations Volunteers living allowances and post-employment benefits, consultant and contractor fees, ad hoc experts, International Court of Justice judges' allowances and non-military personnel compensation and allowances.

103. Supplies and consumables relate to the cost of inventory used and expenses for supplies and consumables.

104. Grants and other transfers include outright grants and transfers to implementing agencies, partners and other entities as well as quick-impact projects. Supplies and consumables relate to the cost of consumables and expenses for supplies. For outright grants, an expense is recognized at the point at which the organization has a binding obligation to pay.

105. Programme activities, distinct from commercial or other arrangements where the United Nations expects to receive equal value for funds transferred, are implemented by executing entities/implementing partners to service a target population that typically includes Governments, non-governmental organizations and agencies of the United Nations system. Transfers to implementing partners are initially recorded as advances, and balances that are not expensed during the year remain outstanding at the end of the year and are reported in the statement of financial position. These executing entities/implementing partners provide the organization with certified expense reports documenting their use of resources, which are the basis for recording expenses in the statement of financial performance. In instances where the partner has not provided financial reports as expected, programme managers make an informed assessment as to whether an accrual or an impairment should be recorded against the advance and submit the accounting adjustment. Where a transfer of funds is deemed to be an outright grant, an expense is recognized at the point at which the organization has a binding obligation to pay, which is generally upon disbursement. Binding agreements to fund executing entities/implementing partners not paid out by the end of the reporting period are shown as commitments in the notes to the financial statements.

106. Other operating expenses include acquisition of goods and intangible assets under capitalization thresholds, maintenance, utilities, contracted services, training, security services, shared services, rent, insurance and allowance for doubtful accounts. Other expenses relate to in-kind contributions, hospitality and official functions, foreign exchange losses and donations or transfers of assets.

Multi-partner trust funds

107. Multi-partner trust fund activities are pooled resources from multiple financial partners that are allocated to multiple implementing entities to support specific national, regional or global development priorities. They are assessed to determine the existence of control and whether the organization is considered to be the principal of the programme or activity. Where control exists and the organization is exposed to the risks and rewards associated with the multi-partner trust fund activities, such programmes or activities are considered to be the organization's operations and are therefore reported in full in the financial statements.

Note 4
Segment reporting

108. A segment is a distinguishable activity or group of activities for which financial information is reported separately in order to evaluate an entity's past performance in achieving its objectives and for making decisions about the future allocation of resources.

109. Segment reporting information is provided on the basis of six segments:

(a) Foundation non-earmarked;

(b) Regular budget;

(c) Foundation Special Purpose;

(d) Technical cooperation;

(e) Programme support;

(f) End-of-service and post-retirement benefits.

110. Both the statement of financial position and the statement of financial performance are as shown below.

All funds — statement of financial position as at 31 December 2017, by segment

(Thousands of United States dollars)

	Foundation non-earmarked	*Foundation Special Purpose*	*Technical cooperation*	*Programme support*	*End-of-service and post-retirement benefits*	*Intersegment eliminations*	*31 December 2017*	*31 December 2016*
Assets								
Current assets								
Cash and cash equivalents	393	4 666	9 904	1 293	648	–	16 904	55 540
Investments	3 467	41 297	87 597	11 510	5 774	–	149 645	98 158
Voluntary contributions receivable	43	42 136	109 672	–	–	–	151 851	167 577
Other receivables	–	410	4 198	3 219	–	(7 705)	122	277
Advance transfers	77	4 442	14 956	–	–	–	19 475	15 541
Other assets	365	3 179	8 657	84	–	–	12 285	24 999
Total current assets	**4 345**	**96 130**	**234 984**	**16 106**	**6 422**	**(7 705)**	**350 282**	**362 092**
Non-current assets								
Investments	1 088	12 962	27 495	3 613	1 812	–	46 970	47 265
Voluntary contributions receivable	–	16 055	29 121	–	–	–	45 176	19 074
Other receivables	–	223	–	–	–	–	223	298
Property, plant and equipment	70	182	16 730	–	–	–	16 982	15 561
Intangible assets	–	–	18	–	–	–	18	23
Total non-current assets	**1 158**	**29 422**	**73 364**	**3 613**	**1 812**	**–**	**109 369**	**82 221**
Total assets	**5 503**	**125 552**	**308 348**	**19 719**	**8 234**	**(7 705)**	**459 651**	**444 313**
Liabilities								
Current liabilities								
Accounts payable and accrued liabilities	52	3 338	6 928	3 973	–	–	14 291	17 894
Employee benefits liabilities	172	307	252	66	1 342	–	2 139	2 922
Other liabilities	3 000	25 350	60 173	1	–	(7 705)	80 819	34 967
Total current liabilities	**3 224**	**28 995**	**67 353**	**4 040**	**1 342**	**(7 705)**	**97 249**	**55 783**

	Foundation non-earmarked	*Foundation Special Purpose*	*Technical cooperation*	*Programme support*	*End-of-service and post-retirement benefits*	*Intersegment eliminations*	*31 December 2017*	*31 December 2016*
Non-current liabilities								
Employee benefits liabilities	–	–	–	–	46 462	–	46 462	38 629
Total non-current liabilities	**–**	**–**	**–**	**–**	**46 462**	**–**	**46 462**	**38 629**
Total liabilities	**3 224**	**28 995**	**67 353**	**4 040**	**47 804**	**(7 705)**	**143 711**	**94 412**
Net of total assets and liabilities	**2 279**	**96 557**	**240 995**	**15 679**	**(39 570)**	**–**	**315 940**	**349 901**
Net assets								
Accumulated surplus/(deficit)	(327)	92 533	229 636	12 747	(39 570)	–	295 019	327 024
Reserves	2 606	4 023	11 360	2 932	–	–	20 921	22 877
Total net assets	**2 279**	**96 556**	**240 996**	**15 679**	**(39 570)**	**–**	**315 940**	**349 901**

All funds — statement of financial performance for the period ended 31 December 2017, by segment

(Thousands of United States dollars)

	Foundation non-earmarked	*Regular budget*	*Foundation Special Purpose*	*Technical cooperation*	*Programme support*	*End-of-service and post-retirement benefits*	*Intersegment eliminations*	*Total as at 31 December 2017*	*Total as at 31 December 2016[a]*
Revenue									
Assessed contributions	–	13 563	–	–	–	–	–	13 563	14 100
Voluntary contributions	2 693	–	28 888	92 381	–	–	–	123 962	191 286
Other transfers and allocations	–	–	3 520	17 090	–	–	–	20 610	19 239
Investment revenue	52	–	666	1 559	223	90	–	2 590	1 520
Other revenue	2 628	–	2 052	5 686	9 752	1 632	(13 667)	8 083	842
Total revenue	**5 373**	**13 563**	**35 126**	**116 716**	**9 975**	**1 722**	**(13 667)**	**168 808**	**226 987**
Expenses									
Employee salaries, allowances and benefits	7 927	11 072	10 349	10 776	6 077	2 423	(3 343)	45 281	48 260
Non-employee compensation and allowances	334	1 008	8 981	23 372	284	–	–	33 979	32 902
Grants and other transfers	442	619	9 792	51 406	106	–	–	62 365	56 898
Supplies and consumables	4	43	91	1 167	16	–	–	1 321	1 060
Depreciation	15	2	51	430	–	–	–	498	626
Amortization	–	–	–	5	–	–	–	5	5
Travel	287	497	4 742	2 387	59	–	–	7 972	8 681
Other operating expenses	171	322	12 802	37 893	3 735	–	(10 324)	44 599	37 315
Other expenses	2	–	805	655	–	–	–	1 462	1 070
Total expenses	9 182	13 563	47 613	128 091	10 277	2 423	(13 667)	197 482	186 817
Surplus/(deficit) for the period	**(3 809)**	**–**	**(12 487)**	**(11 375)**	**(302)**	**(701)**	**–**	**(28 674)**	**40 170**

[a] Comparatives have been restated to conform to current presentation.

Note 5
Comparison to budget

111. The organization prepares budgets on a modified cash basis, as opposed to the IPSAS full accrual basis, as presented in the statement of financial performance, which reflects expenses by nature. The statement of comparison of budget and actual amounts (statement V) presents the difference between budget amounts and actual expenditure on a comparable basis.

112. Approved budgets are those that permit expenses to be incurred and are approved by the Governing Council. For IPSAS reporting purposes, approved budgets are the appropriations authorized for each category through Governing Council resolutions.

113. The original budget amounts are the 2017 proportions of the appropriations approved by the Governing Council for the biennium 2016–2017. The final budget reflects the original budget appropriation with any amendments by the Executive Director. Differences between original and final budget amounts are considered in the table below.

114. Explanations for material differences between the final budget appropriation and actual expenditure on a modified accrual basis which are deemed to be those greater than 10 per cent are considered below.

Differences between actual and final annual budget amounts

Budget area	*Material differences greater than 10 per cent*
Urban basic services	Expenditure 19 per cent less than final appropriation
Risk reduction and rehabilitation	Expenditure 20 per cent less than final appropriation
Executive direction	Expenditure 21 per cent less than final appropriation
Development account	Expenditure 41 per cent more than final appropriation
Habitat III	Expenditure 41 per cent more than final appropriation

115. UN-Habitat achieved a budget execution level of 92 per cent in the reporting period, which represents an aggregate difference of 8 per cent between the total actual expenditures and the total final annual budget. The major differences are explained in the paragraphs below.

Foundation General Purpose

116. Actual expenditure for urban basic services is lower owing to the actual personnel costs realized in 2017 being less than initially budgeted.

117. Actual expenditure for risk reduction and rehabilitation is lower owing to the actual personnel costs realized in 2017 being less than initially budgeted.

118. Actual expenditure for executive direction and management is lower owing to the actual personnel costs realized in 2017 being less than initially budgeted, savings on supplies and materials and the rescheduling to 2018 of some expenditures for grants and contributions originally planned for 2017.

Other accounts

119. Actual expenditure under development account is higher owing to high execution. Some budget was rolled over from 2016.

120. Actual expenditure under Habitat III is higher owing to unforeseen expenses relating to the closing of the Habitat III project.

Reconciliation between actual amounts on a comparable basis and the statement of cash flows

121. A reconciliation between the actual amounts on a comparable basis in the statement of comparison of budget and actual amounts and the actual amounts in the statement of cash flows is shown in the table below.

Reconciliation of actual amounts on a comparable basis with the statement of cash flows

(Thousands of United States dollars)

Reconciliation	*Operating*	*Investing*	*Financing*	*Total 2017*
Actual amounts on comparable basis (statement V)	(178 364)	–	–	(178 364)
Basis differences[a]	36 692	(1 880)	–	34 812
Entity differences[b]	(12 700)	–	–	(12 700)
Presentation differences[c]	166 218	(48 602)	–	117 616
Actual amount in statement of cash flows (statement IV)	**11 846**	**(50 482)**	–	**(38 636)**

[a] Basis differences capture the differences resulting from preparing the budget on a modified cash basis. In order to reconcile the budgetary results with the statement of cash flows, the non-cash elements, such as unliquidated obligations, payments against prior-year obligations, property, plant and equipment, and outstanding assessed contributions, are included as basis differences.

[b] Entity differences represent cash flows of fund groups other than the organization that are reported in the financial statements. The financial statements include results for all fund groups.

[c] Presentation differences are differences in the format and classification schemes in the statement of cash flows and the statement of comparison of budget and actual amounts, which is related primarily to the latter not recording income and the net changes in cash pool balances.

Note 6
Cash and cash equivalents

(Thousands of United States dollars)

	Total as at 31 December 2017	*Total as at 31 December 2016*
Main pool	16 804	55 439
Other cash and cash equivalents	100	101
Total cash and cash equivalents	**16 904**	**55 540**

122. Cash and cash equivalents include trust fund monies, which are for the specific purposes of the respective trust funds.

Note 7
Investments

(Thousands of United States dollars)

	Total as at 31 December 2017	*Total as at 31 December 2016*
Current		
Main pool	149 645	98 158
Subtotal	**149 645**	**98 158**
Non-current		
Main pool	46 970	47 265
Subtotal	**46 970**	**47 265**
Total	**196 615**	**145 423**

123. Investments include amounts in relation to trust funds.

Note 8
Receivables from non-exchange transactions: voluntary contributions

(Thousands of United States dollars)

	Total as at 31 December 2017	*Total as at 31 December 2016*
Current voluntary contributions receivable		
Member States	35 335	46 512
Other governmental organizations	67 454	54 973
United Nations organizations	19 769	30 981
Private donors	61 167	48 575
Total current voluntary contributions receivable before allowance	**183 725**	**181 041**
Non-current voluntary contributions receivable		
Member States	1 635	9 056
Other governmental organizations	22 857	762
United Nations organizations	–	1 229
Private donors	20 684	8 027
Total non-current voluntary contributions receivable before allowance	**45 176**	**19 074**
Allowance for doubtful receivables (current)	(31 874)	(13 464)
Allowance for doubtful receivables (non-current)	–	–
Total allowance for doubtful receivables	**(31 874)**	**(13 464)**
Net voluntary contributions receivable (current)	**151 851**	**167 577**
Net voluntary contributions receivable (non-current)	**45 176**	**19 074**
Current voluntary contributions receivable		
Voluntary contributions	183 725	181 041
Allowance for doubtful receivables	(31 874)	(13 464)
Total current voluntary contributions receivable	**151 851**	**167 577**

	Total as at 31 December 2017	*Total as at 31 December 2016*
Non-current voluntary contributions receivable		
Voluntary contributions	45 176	19 074
Total non-current voluntary contributions receivable	**45 176**	**19 074**

Note 9
Other receivables

(Thousands of United States dollars)

	Total as at 31 December 2017	*Total as at 31 December 2016*
Other receivables (current)		
Other accounts receivable	76	70
Loans receivable	831	825
Subtotal	**907**	**895**
Allowance for doubtful loans	(750)	(600)
Allowance for doubtful receivables	(35)	(18)
Total other receivables (current)	**122**	**277**
Other receivables (non-current)		
Loans receivable	223	298
Total other receivables (non-current)	**223**	**298**
Net other receivables	**223**	**298**

Note 10
Advance transfers

(Thousands of United States dollars)

	Total as at 31 December 2017	*Total as at 31 December 2016*
Advance transfers	19 475	15 541
Total advance transfers	**19 475**	**15 541**

Note 11
Other assets

(Thousands of United States dollars)

	Total as at 31 December 2017	*Total as at 31 December 2016*
Advances to UNDP and other agencies of the United Nations system[a]	10 088	20 287
Advances to vendor	582	1 502
Advances to staff	757	1 400
Other personnel	761	1 036
Deferred charges	88	43
Other assets — other	9	731
Other assets (current)	**12 285**	**24 999**

[a] Includes UNDP Service Clearing Account and advances to other entities to provide administrative services.

Note 12
Heritage assets

124. Certain assets are categorized as heritage assets because of their cultural, educational or historical significance. The organization's heritage assets were acquired over many years by various means, including purchase, donation and bequest. These heritage assets do not generate any future economic benefits or service potential; accordingly, the organization elected not to recognize heritage assets on the statement of financial position.

125. As at the reporting date, the organization did not have significant heritage assets to report.

Note 13
Property, plant and equipment

126. In accordance with IPSAS 17, opening balances of property, plant and equipment are initially recognized at cost or fair value as at 1 January 2014 and measured at cost thereafter. The opening balance for buildings was obtained on 1 January 2014 on the basis of depreciated replacement cost and was validated by external professionals. Machinery and equipment are valued using the cost method.

127. During the year, the organization did not write down property, plant and equipment owing to accidents, malfunctions and other losses. As at the reporting date, the organization did not identify any additional impairment. Assets under construction represent projects of a capital nature begun by the organization on behalf of end user communities that had not yet been finalized and handed over as at 31 December 2017.

Property, plant and equipment

(Thousands of United States dollars)

	Buildings	*Assets under construction*[a]	*Machinery and equipment*	*Vehicles*	*Communications and information technology equipment*	*Furniture and fixtures*	*Total*
Cost as at 1 January 2017	**82**	**13 276**	**435**	**6 570**	**779**	**148**	**21 290**
Additions	–	1 344	32	449	55	–	1 880
Disposals	–	–	(6)	(220)	(14)	–	(240)
Other changes	–	–	44	45	–	–	89
Cost as at 31 December 2017	**82**	**14 620**	**505**	**6 844**	**820**	**148**	**23 019**
Accumulated depreciation as at 1 January 2017	**73**	**–**	**287**	**4 785**	**470**	**114**	**5 729**
Depreciation	–	–	54	342	92	10	498
Disposals	–	–	(6)	(220)	(14)	–	(240)
Other changes	–	–	7	43	–	–	50
Accumulated depreciation as at 31 December 2017	**73**	**–**	**342**	**4 950**	**548**	**124**	**6 037**
Net carrying amount as at 31 December 2017	**9**	**14 620**	**163**	**1 894**	**272**	**24**	**16 982**

[a] Assets under construction are meant for distribution to project beneficiaries upon completion.

Note 14
Intangible assets

128. All intangible assets acquired before 1 January 2014, except for the capitalized costs associated with the Umoja project, are subject to IPSAS transition exemption and are therefore not recognized.

Intangible assets

(Thousands of United States dollars)

	Software acquired externally
Cost as at 1 January 2017	**32**
Additions	–
Cost as at 31 December 2017	**32**
Accumulated amortization and impairment as at 1 January 2017	**9**
Amortization	5
Accumulated amortization and impairment as at 31 December 2017	**14**
Net carrying amount as at 31 December 2017	**18**

Note 15
Accounts payable and accrued liabilities

(Thousands of United States dollars)

	Total as at 31 December 2017	*Total as at 31 December 2016*
Vendor payables (accounts payable)	2 974	2 329
Transfers payable	15	–
Payables to other United Nations entities	1 425	8 029
Accruals for goods and services	4 234	3 255
Accounts payable — other	5 543	4 281
Total accounts payable and accrued liabilities	**14 291**	**17 894**

Note 16
Employee benefits liabilities

(Thousands of United States dollars)

	Current	*Non-current*	*Total as at 31 December 2017*	*Total as at 31 December 2016*
After-service health insurance	383	37 397	37 780	28 537
Annual leave	348	3 568	3 916	5 277
Repatriation benefits	611	5 497	6 108	6 441
Subtotal, defined-benefit liabilities	**1 342**	**46 462**	**47 804**	**40 255**
Accrued salaries and allowances	685	–	685	1 296
Pension contributions liabilities	112	–	112	–
Total employee benefits liabilities	**2 139**	**46 462**	**48 601**	**41 551**

129. The liabilities arising from end-of-service/post-employment benefits and the workers' compensation programme under appendix D to the Staff Rules of the United Nations are determined by independent actuaries and are established in accordance with the Staff Regulations and Rules of the United Nations. An actuarial valuation is usually undertaken every two years. The most recent full actuarial valuation was conducted as at 31 December 2017.

Actuarial valuation: assumptions

130. The organization reviews and selects assumptions and methods used by the actuaries in the year-end valuation to determine the expense and contribution requirements for the employee benefits. The principal actuarial assumptions used to determine the employee benefit obligations as at 31 December 2017 are as follows.

Actuarial assumptions

(Percentage)

Assumptions	*After-service health insurance*	*Repatriation benefits*	*Annual leave*	*Appendix D/workers' compensation[a]*
Discount rates, 31 December 2016	4.20	3.59	3.57	–
Discount rates, 31 December 2017	3.96	3.45	3.51	–
Inflation, 31 December 2016	4.00–6.4	2.25	–	2.25
Inflation, 31 December 2017	4.00–6.0	2.25	–	2.25

[a] For the appendix D/workers' compensation valuation, the actuaries applied the year-end Citigroup Pension Discount Curve discount rate applicable to the year in which the cash flows take place.

131. Discount rates are based on a weighted blend of three discount rate assumptions based on the currency denomination of the different cash flows: United States dollars (Citigroup Pension Discount Curve), euros (the eurozone corporate yield curve) and Swiss francs (Federation bonds yield curve, plus the spread observed between government rates and high grade corporate bonds rates). The slightly lower discount rates were assumed for the 31 December 2017 valuation owing to a slight variation in the inflation rates from 31 December 2016.

132. The per capita claim costs for the after-service health insurance plans are updated to reflect recent claims and enrolment experience. The health-care cost trend rate assumption is revised to reflect the current short-term expectations of the after-service health insurance plan cost increases and economic environment. Medical cost trend assumptions used for the valuation as at 31 December 2017 were updated to include escalation rates for future years. As at 31 December 2017, these escalation rates were a flat health-care yearly escalation rate of 4.0 per cent (2015: 4.0 per cent) for non-United States medical plans, health-care escalation rates of 6.0 per cent (2015: 6.4 per cent) for all other medical plans, except 5.7 per cent (2015: 5.7 per cent) for the United States Medicare plan, and 4.9 per cent (2015: 4.9 per cent) for the United States dental plan, grading down to 4.5 per cent (2015: 4.5 per cent) over 10 years.

133. With regard to the valuation of repatriation benefits as at 31 December 2017, inflation in travel costs was assumed to be 2.25 per cent (2015: 2.25 per cent), on the basis of the projected United States inflation rate over the next 10 years.

134. Annual leave balances were assumed to increase at the following annual rates during the staff member's projected years of service: 1–3 years — 10.9 days; 4–8 years — 1 day; and more than 8 years — 0.5 days up to the maximum of 60 days. The assumption is consistent with the 2015 valuation. The attribution method continues to be used for annual leave actuarial valuation.

135. For defined-benefit plans, assumptions regarding future mortality are based on published statistics and mortality tables. Salary increases, retirement, withdrawal and mortality assumptions are consistent with those used by the United Nations Joint Staff Pension Fund in making its actuarial valuation. Appendix D/workers' compensation uses mortality assumptions based on World Health Organization statistical tables.

Movement in employee benefits liabilities accounted for as defined benefits plans

Reconciliation of opening to closing total defined-benefit liability

(Thousands of United States dollars)

	After-service health insurance	*Repatriation benefits*	*Annual leave*	*Total*
Net defined-benefit liability as at 1 January 2017	28 537	6 441	5 277	40 255
Current service cost	1 595	450	319	2 364
Interest cost	1 190	215	179	1 584
Actual benefits paid	(448)	(710)	(528)	(1 686)
Total costs recognized in the statement of financial performance in 2017	**2 337**	**(45)**	**(30)**	**2 262**
Subtotal	**30 874**	**6 396**	**5 247**	**42 517**
Actuarial (gains)/losses	6 906	(288)	(1 331)	5 287
Net defined liability as at 31 December 2017	**37 780**	**6 108**	**3 916**	**47 804**

Discount rate sensitivity analysis

136. The changes in discount rates are driven by the discount curve, which is calculated on the basis of corporate bonds. The bond markets varied over the reporting period and the volatility has an impact on the discount rate assumption. Should the assumption vary by 1 per cent, its impact on the obligations would be as shown below.

Discount rate sensitivity analysis: year-end employee benefits liabilities

(Thousands of United States dollars)

	After-service health insurance	*Repatriation benefits*	*Annual leave*
Increase of discount rate by 1 per cent	(7 186)	(482)	(336)
As percentage of end-of-year liability	(19)	(8)	(9)
Decrease of discount rate by 1 per cent	9 656	555	388
As percentage of end-of-year liability	26%	9%	10%

Medical cost sensitivity analysis

137. The principal assumption in the valuation of after-service health insurance is the rate at which medical costs are expected to increase in the future. The sensitivity analysis looks at the change in liability resulting from changes in the medical cost rates while holding other assumptions, such as the discount rate, constant. Should the medical cost trend assumption vary by 1 per cent, this would have an impact on the measurement of the defined benefit obligations as shown below.

Medical cost sensitivity analysis: 1 per cent movement in the assumed medical cost trend rates

(Thousands of United States dollars and percentage)

2017	*Increase*		*Decrease*	
Effect on the defined-benefit obligation	25.77%	9 735	(19.49%)	(7 362)
Effect on the aggregate of the current service cost and interest cost	2.47%	934	(1.81%)	(683)
Total effect		**10 669**		**(8 045)**

2016	*Increase*		*Decrease*	
Effect on the defined-benefit obligation	23.9%	6 831	(18.33%)	(5 230)
Effect on the aggregate of the current service cost and interest cost	2.92%	834	(2.15%)	(613)
Total effect		**7 665**		**(5 843)**

Other defined-benefit plan information

138. Benefits paid for 2017 are estimates of what would have been paid to separating staff and/or retirees during the year on the basis of the pattern of rights acquisition under each scheme: after-service health insurance, repatriation and commutation of accrued annual leave. The estimated defined-benefit payments (net of participants' contributions in these schemes) are shown in the table below.

Estimated defined-benefit payments net of participants' contributions

(Thousands of United States dollars)

	After-service health insurance	*Repatriation benefits*	*Annual leave*	*Total*
Estimated 2017 defined-benefit payments net of participants' contributions	448	710	528	1 686
Estimated 2016 defined-benefit payments net of participants' contributions	397	634	360	1 391

Historical information: total liability for after-service health insurance, repatriation benefits and annual leave as at 31 December 2017

(Thousands of United States dollars)

	2017	*2016*	*2015*	*2014*	*2013*	*2012*
Present value of the defined-benefit obligations	47 804	40 255	37 123	34 953	24 688	25 969

Accrued salaries and allowances

139. Accrued salaries and allowances comprise $0.66 million relating to home leave benefits. The remaining balance of $0.02 million relates to accrued payables for salary and other benefits.

United Nations Joint Staff Pension Fund

140. The Regulations of the United Nations Joint Staff Pension Fund state that the Pension Board shall have an actuarial valuation made of the Fund at least once every

three years by the Consulting Actuary. The practice of the Pension Board has been to carry out an actuarial valuation every two years using the open group aggregate method. The primary purpose of the actuarial valuation is to determine whether the current and estimated future assets of the Fund will be sufficient to meet its liabilities.

141. The organization's financial obligation to the Pension Fund consists of its mandated contribution, at the rate established by the General Assembly (currently at 7.9 per cent for participants and 15.8 per cent for member organizations), together with any share of any actuarial deficiency payments under article 26 of the Regulations of the Fund. Such deficiency payments are only payable if and when the Assembly has invoked the provision of article 26, following a determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Fund as at the valuation date. Each member organization shall contribute to this deficiency an amount proportionate to the total contributions which each paid during the three years preceding the valuation date.

142. In 2017, the Fund identified that there were anomalies in the census data utilized in the actuarial valuation performed as at 31 December 2015. Therefore, as an exception to the normal biennial cycle, the participation data as at 31 December 2013 to 31 December 2016 were rolled forward by the Fund for the 2016 financial statements. An actuarial valuation as at 31 December 2017 is currently being performed.

143. The roll forward of the participation data as at 31 December 2013 to 31 December 2016 resulted in a funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, of 150.1 per cent (127.5 per cent in the 2013 valuation). The funded ratio was 101.4 per cent (91.2 per cent in the 2013 valuation) when the current system of pension adjustments was taken into account.

144. After assessing the actuarial sufficiency of the Fund, the Consulting Actuary concluded that there was no requirement, as at 31 December 2016, for deficiency payments under article 26 of the Regulations of the Fund, as the actuarial value of assets exceeded the actuarial value of all accrued liabilities under the Fund. In addition, the market value of assets also exceeded the actuarial value of all accrued liabilities as at the valuation date. At the time of reporting, the General Assembly had not invoked the provision of article 26.

145. During 2017, the organization's contributions paid to the Pension Fund were fully settled.

146. The Board of Auditors carries out an annual audit of the United Nations Joint Staff Pension Fund and reports to the United Nations Joint Staff Pension Board on the audit every year. The Pension Fund publishes quarterly reports on its investments, which can be viewed at www.unjspf.org.

Fund for compensation payments maintained with Volume I: appendix D/ workers' compensation

147. The fund for compensation payments relates to the payment of compensation with regard to death, injury or illness attributable to the performance of official duties. The rules governing the compensation payments are under appendix D to the Staff Rules. The fund allows the organization to continue to fulfil its obligation to make compensation payments for death, injury or illness. The fund derives its revenue from a charge of 1.9 per cent of the net base remuneration, including post adjustment for eligible personnel. It covers appendix D claims submitted by personnel, covering monthly death and disability benefits and lump sum payment for injury or illness as well as medical expenses.

Impact of the General Assembly resolutions on staff benefits

148. On 23 December 2015, the General Assembly adopted its resolution 70/244, by which it approved certain changes to the conditions of service and entitlements for all staff serving in the organizations of the United Nations common system, as recommended by the International Civil Service Commission. Some of the changes affect the calculation of other long-term and end-of-service employee benefits liabilities. In addition, a revised education grant scheme has been implemented, which affects the computation of this short-term benefit. The impact of these changes is shown in the table below.

Change	*Details*
Increase in mandatory age of separation	The mandatory age of retirement for staff who joined the United Nations on or after 1 January 2014 is 65; for those who joined before 1 January 2014, it is 60 or 62. The General Assembly decided to extend the mandatory age of separation for staff recruited before 1 January 2014 by organizations of the United Nations common system to 65 years, at the latest by 1 January 2018, taking into account the acquired rights of staff. This change has been implemented as of 1 January 2018 and affects future calculations of employee benefits liabilities.
Unified salary structure	The salary scales for internationally recruited staff (Professional and Field Service) as at 31 December 2016 were based on single or dependency rates. Those rates affected staff assessment and post adjustment amounts. The General Assembly approved a unified salary scale that resulted in the elimination of single and dependency rates as from 1 January 2017 and was implemented in September 2017. The dependency rate was replaced by allowances for staff members who have recognized dependants in accordance with the Staff Regulations and Rules of the United Nations. A revised staff assessment scale and pensionable remuneration scale was implemented together with the unified salary structure. The implementation of the unified salary scale was not designed to result in reduced payments for staff members. However, it is expected that the unified salary scale will affect the calculation and valuation of the repatriation benefit and the commuted annual leave benefit. Currently, the repatriation benefit is calculated on the basis of gross salary and staff assessment at the date of separation, whereas commuted annual leave is calculated on the basis of gross salary, post adjustment and staff assessment at the date of separation.
Repatriation benefit	Staff members are eligible to receive a repatriation grant upon separation, provided they have been in service for at least one year in a duty station outside their country of nationality. The General Assembly has since revised eligibility for the repatriation grant from one year to five years for prospective employees, while current employees retain the one-year eligibility. This change in eligibility criteria has already been implemented effective January 2017 in September 2017 and is expected to affect future calculations of employee benefits liabilities.
Education grant	With effect from the school year in progress on 1 January 2018, the computation of the education grant provided to eligible staff members utilizes a global sliding scale that is set in one single currency (United States dollar) with the same maximum amount of the grant for all countries. In addition, this revised education grant scheme changes boarding assistance and education grant travel provided by the organization. Impacts can be seen at the end of the 2017/18 school year and at the time of settlements.

The impact of these changes, other than the education grant, was fully reflected in the actuarial valuation conducted in 2017.

Note 17
Provisions

149. As at the reporting date, the organization had no legal claims that required the recognition of provisions.

Note 18
Other liabilities

(Thousands of United States dollars)

	Total as at 31 December 2017	*Total as at 31 December 2016[a]*
Liabilities for conditional arrangements	80 818	34 966
Other/miscellaneous liabilities	1	1
Total other liabilities	**80 819**	**34 967**

Note 19
Net assets

Accumulated surpluses/deficits

150. The unrestricted cumulative surplus includes the accumulated deficit for employee benefits liabilities and the net positions of after-service health insurance, repatriation benefit and annual leave liabilities.

151. The table below shows the status of the organization's net assets balances and movements.

Net assets balances and movements[a]

(Thousands of United States dollars)

	Total as at 31 December 2016	*Surplus (deficit)*	*Transfers to (from) reserves*	*Other[b]*	*Total as at 31 December 2017*
Unrestricted cumulative surplus					
Foundation non-earmarked	1 526	(3 809)	1 956	–	(327)
Foundation Special Purpose	105 020	(12 487)	–	–	92 533
Technical cooperation	241 011	(11 375)	–	–	229 636
Programme support	13 049	(302)	–	–	12 747
End-of-service liabilities	(33 582)	(701)	–	(5 287)	(39 570)
Subtotal unrestricted fund	**327 024**	**(28 674)**	**1 956**	**(5 287)**	**295 019**
Reserves					
Foundation non-earmarked	4 562	–	(1 956)	–	2 606
Foundation Special Purpose	4 023	–	–	–	4 023
Technical cooperation	11 360	–	–	–	11 360
Programme support	2 932	–	–	–	2 932
End-of-service liabilities		–	–	–	
Subtotal reserves	**22 877**	**–**	**(1 956)**	**–**	**20 921**

	Total as at 31 December 2016	*Surplus (deficit)*	*Transfers to (from) reserves*	*Other*[b]	*Total as at 31 December 2017*
Total net assets					
Foundation non-earmarked	6 088	(3 809)	–	–	2 279
Foundation Special Purpose	109 043	(12 487)	–	–	96 556
Technical cooperation	252 371	(11 375)	–	–	240 996
Programme support	15 981	(302)	–	–	15 679
End-of-service liabilities	(33 582)	(701)	–	(5 287)	(39 570)
Total reserves and fund balances	**349 901**	**(28 674)**	**–**	**(5 287)**	**315 940**

[a] Net assets movements, including fund balances, are based on IPSAS.
[b] Represents actuarial losses of $5.2 million.

Note 20
Revenue from non-exchange transactions

Assessed contributions

152. Each biennium, the organization receives an allocation from the regular budget, which is included in assessed contributions. These are reported under Volume I, and are included in these financial statements for completeness. For the reporting period, the organization received $13.6 million.

Voluntary contributions

(Thousands of United States dollars)

	Total as at 31 December 2017	*Total as at 31 December 2016*[a]
Assessed contributions		
Allocations from regular budget	13 563	14 100
Amount reported in statement II — assessed contributions	**13 563**	**14 100**
Voluntary contributions		
Voluntary contributions — in cash	124 351	192 859
Voluntary in-kind contributions — land and premises	1256	938
Voluntary in-kind contributions of plant, equipment, intangible assets and other goods	57	8
Total voluntary contributions received	**125 664**	**193 805**
Refunds to donors	(1 702)	(2 519)
Net voluntary contributions received	**123 962**	**191 286**
Other transfers and allocations		
Inter-organizational arrangements	20 610	19 239
Total other transfers and allocations	**20 610**	**19 239**

153. Revenue from non-exchange transactions includes transfers and allocations.

Services in kind

154. In-kind contributions of services received during the year are not recognized as revenue and therefore are not included in the above in-kind contributions revenue. Services in kind confirmed during the year are shown in the table below.

Services in kind

(Thousands of United States dollars)

	Total as at 31 December 2017	*Total as at 31 December 2016*
Technical assistance/expert services	339	262
Administrative support	9	–
Total	**348**	**262**

Note 21
Other revenue

155. Revenue from miscellaneous revenue sources amounts to $7.78 million.

	Total as at 31 December 2017	*Total as at 31 December 2016*
Other/miscellaneous revenue	8 083	842
Total other exchange revenue	**8 083**	**842**

Note 22
Expenses

Employee salaries, allowances and benefits

156. Employee salaries include international, national and general temporary staff salaries, post adjustments and staff assessments; allowances and benefits include other staff entitlements, including pension and insurance, staff assignment, repatriation, hardship and other allowances, as set out in the table below.

Employee salaries, allowances and benefits

(Thousands of United States dollars)

	Total as at 31 December 2017	*Total as at 31 December 2016*
Salary and wages	35 703	38 526
Pension and insurance benefits	8 664	8 673
Other benefits	914	1 061
Total employee salaries, allowances and benefits	**45 281**	**48 260**

Non-employee compensation and allowances

157. Non-employee compensation and allowances consist of United Nations Volunteers living allowances and post-employment benefits, consultant and contractor fees, ad hoc experts, International Court of Justice judges' allowances and non-military personnel compensation and allowances.

Non-employee compensation and allowances

(Thousands of United States dollars)

	Total as at 31 December 2017	*Total as at 31 December 2016*
United Nations Volunteers	247	442
Consultants and contractors	33 732	32 460
Total non-employee compensation and allowances	**33 979**	**32 902**

Grants and other transfers

158. Grants and other transfers include outright grants and transfers to implementing agencies, partners and other entities, as set out in the table below.

Grants and other transfers

(Thousands of United States dollars)

	Total as at 31 December 2017	*Total as at 31 December 2016*
Grants to end beneficiaries	33 624	22 024
Transfers to implementing partners	28 741	34 874
Total grants and other transfers	**62 365**	**56 898**

Supplies and consumables

159. Supplies and consumables include consumables, fuel and lubricants, and spare parts, as set out in the table below.

Supplies and consumables

(Thousands of United States dollars)

	Total as at 31 December 2017	*Total as at 31 December 2016*
Fuel and lubricants	195	169
Spare parts	169	320
Consumables	957	571
Total supplies and consumables	**1 321**	**1 060**

Travel

160. Travel includes staff and representatives' travel, as set out in the table below.

Travel

(Thousands of United States dollars)

	Total as at 31 December 2017	*Total as at 31 December 2016*
Staff travel	4 167	5 898
Representatives' travel	3 805	2 783
Total travel	**7 972**	**8 681**

Other operating expenses

161. Other operating expenses include maintenance, utilities, contracted services, training, security services, shared services, rent, insurance, allowance for bad debt and write-off expenses, as set out in the table below.

Other operating expenses

(Thousands of United States dollars)

	Total as at 31 December 2017	*Total as at 31 December 2016*
Air transport	274	304
Ground transport	1 114	1 073
Communications and information technology	3 320	2 888
Other contracted services	15 763	11 197
Acquisitions of goods	179	1 442
Acquisitions of intangible assets	108	13
Rent — offices and premises	2 528	1 709
Rental — equipment	46	530
Maintenance and repair	600	590
Bad debt expense	18 546	10 182
Net foreign exchange losses	912	6 231
Other/miscellaneous operating expenses	1 209	1 156
Total other operating expenses	**44 599**	**37 315**

Other expenses

162. Other expenses relate to hospitality and official functions, contributions in kind and donation/transfer of assets.

(Thousands of United States dollars)

	Total as at 31 December 2017	*Total as at 31 December 2016*
Contributions in kind	1 256	938
Other/miscellaneous expenses	206	132
Total other expenses	**1 462**	**1 070**

Note 23
Financial instruments and financial risk management

(Thousands of United States dollars)

	Total as at 31 December 2017	*Total as at 31 December2016*
Financial assets		
Fair value through the surplus or deficit		
Short-term investments, cash pools	149 009	97 603
Short-term investments, other	636	555
Total short-term investments	**149 645**	**98 158**

	Total as at 31 December 2017	*Total as at 31 December2016*
Long-term investments, cash pools	46 970	47 265
Total long-term investments	**46 970**	**47 265**
Total fair value through the surplus or deficit	**196 615**	**145 423**
Cash, loans and receivables		
Cash and cash equivalents, cash pools	16 804	55 439
Cash and cash equivalents, other	100	101
Voluntary contributions	197 027	186 651
Other receivables	345	575
Total cash, loans and receivables	**214 276**	**242 766**
Total carrying amount of financial assets	**410 891**	**388 189**
Of which relates to financial assets held in cash pool	**213 420**	**200 862**
Financial liabilities		
Accounts payable and accrued liabilities	14 291	17 894
Other liabilities (excluding conditional liabilities)	1	1
Total carrying amount of financial liabilities	**14 292**	**17 895**
Summary of net income from cash pools		
Investment revenue	2 664	1 757
Financial exchange gains/(losses)	(86)	(254)
Net income from cash pools	**2 578**	**1 503**
Other investment revenue	12	17
Total net income from financial instruments	**2 590**	**1 520**

Financial risk management: overview

163. The organization has exposure to the following financial risks: credit risk, liquidity risk and market risk.

164. The present note and note 24, Financial instruments: cash pools, present information on the organization's exposure to those risks; the objectives, policies and processes for measuring and managing risk; and the management of capital.

Financial risk management: risk management framework

165. The organization's risk management practices are in accordance with its Financial Regulations and Rules and Investment Management Guidelines (the Guidelines). The organization defines the capital that it manages as the aggregate of its net assets, which comprises accumulated fund balances and reserves. Its objectives are to safeguard its ability to continue as a going concern, to fund its asset base and to accomplish its objectives. The organization manages its capital in the light of global

economic conditions, the risk characteristics of the underlying assets and its current and future working capital requirements.

Financial risk management: credit risk

166. Credit risk is the risk of financial loss if the counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises from cash and cash equivalents, investments and deposits with financial institutions and credit exposures to outstanding receivables. The carrying value of financial assets less allowances for doubtful receivables is the maximum exposure to credit risk.

Credit risk management

167. The investment management function is centralized at United Nations Headquarters, and in normal circumstances other areas are not permitted to engage in investing. An area may receive exceptional approval when conditions warrant investing locally under specified parameters that comply with the Guidelines.

Credit risk: contributions receivable and other receivables

168. A large portion of the contributions receivable is due from sovereign Governments and supranational agencies, including other United Nations entities that do not have significant credit risk. As at the reporting date, the organization does not hold any collateral as security for receivables.

Credit risk: allowance for doubtful receivables

169. The organization evaluates the allowance of doubtful receivables at each reporting date. An allowance is established when there is objective evidence that the organization will not collect the full amount due. Balances credited to the allowance for doubtful receivables account are utilized when management approves write-offs under the Financial Regulations and Rules or are reversed when the previously impaired receivables are received. The movement in the allowances account during the year is shown in the table below.

Movement in allowance for doubtful receivables

(Thousands of United States dollars)

As at 1 January 2017	14 082
Additional allowance for doubtful receivables	18 577
Receivables written off during the period as uncollectable	–
Unused amounts reversed	–
As at 31 December 2017	**32 659**

170. Since the organization does not have assessed contributions receivable, there is no ageing of assessed contributions receivable and associated allowance.

171. The ageing of receivables other than assessed contributions, including associated allowance percentages, is set out in the table below.

Ageing of receivables for voluntary contributions

(Thousands of United States dollars)

	Gross receivable	*Allowance*
Neither impaired nor past due	45 176	–
Less than one year	112 220	–
One to two years	40 223	10 055
Two to three years	23 656	14 193
Over three years	7 626	7 626
Total	**228 901**	**31 874**

Ageing of other receivables

(Thousands of United States dollars)

	Gross receivable	*Allowance*
Neither impaired nor past due	223	–
Less than one year	31	–
One to two years	–	–
Two to three years	26	16
Over three years	19	19
Special allowance	831	750
Total	**1 130**	**785**

Credit risk: cash and cash equivalents

172. The organization had cash and cash equivalents of $55.5 million as at 31 December 2017, which is the maximum credit exposure on these assets. Cash and cash equivalents are held with bank and financial institution counterparties rated at "A-" and above, based on the Fitch viability rating.

Financial risk management: liquidity risk

173. Liquidity risk is the risk that the organization might not have adequate funds to meet its obligations as they fall due. The organization's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the organization's reputation.

174. The Financial Regulations and Rules require that expenses be incurred after receipt of funds from donors, thereby considerably reducing the liquidity risk with regard to contributions, which are a largely stable annual cash flow. Exceptions to incurring expenses prior to the receipt of funds are permitted only if specified risk management criteria are adhered to with regard to the amounts receivable.

175. The organization performs cash flow forecasting and monitors rolling forecasts of liquidity requirements to ensure that it has sufficient cash to meet operational needs.

176. Investments are made with due consideration to the cash requirements for operating purposes on the basis of cash flow forecasting. The organization maintains a large portion of its investments in cash equivalents and short-term investments sufficient to cover its commitments as and when they fall due.

Liquidity risk: financial liabilities

177. The exposure to liquidity risk is based on the notion that the entity may encounter difficulty in meeting its obligations associated with financial liabilities. This is highly unlikely owing to receivables, cash and investments available to the entity and internal policies and procedures put in place to ensure that there are appropriate resources to meet its financial obligations. As at the reporting date, the organization had not pledged any collateral for any liabilities or contingent liabilities, and during the year no accounts payable or other liabilities were forgiven by third parties. Maturities for financial liabilities based on the earliest date at which the organization can be required to settle each financial liability are set out in the table below.

Maturities for financial liabilities as at 31 December 2017

(Thousands of United States dollars)

	3 months	*3 to 12 months*	*1 year*	*Total*
Accounts payable and accrued liabilities	9 442	4 849	–	14 291

Financial risk management: market risk

178. Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and prices of investment securities, will affect the organization's income or the value of its financial assets and liabilities. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing the organization's fiscal position.

Market risk: interest rate risk

179. Interest rate risk is the risk of variability in financial instruments' fair values or future cash flows owing to changes in interest rates. In general, as the interest rate rises, the price of a fixed-rate security falls, and vice versa. Interest rate risk is commonly measured by the fixed-rate security's duration, with duration being a number expressed in years. The longer the duration, the greater the interest rate risk. The main exposure to interest rate risks relates to the cash pools and is considered in note 24, Financial instruments: cash pools.

Market risk: currency risk

180. Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate owing to changes in foreign exchange rates. The organization has transactions, assets and liabilities in currencies other than in its functional currency and is exposed to currency risk arising from fluctuations in exchange rates. Management policies and the Guidelines require the organization to manage its currency risk exposure.

181. The organization's financial assets and liabilities are primarily denominated in United States dollars. Non-United States dollar financial assets relate primarily to investments in addition to cash and cash equivalents and receivables held in order to support local operating activities where transactions are made in local currencies. The organization maintains a minimum level of assets in local currencies and, whenever possible, maintains bank accounts in United States dollars. The organization mitigates currency risk exposure by structuring contributions from donors in foreign currency to correspond to foreign currency needs for operational purposes.

182. The most significant exposure to currency risk relates to cash-pool cash and cash equivalents. As at the reporting date, the non-United States dollar denominated

balances in these financial assets were primarily euros and Swiss francs, together with over 30 other currencies, as shown in the table below.

Currency exposure of the cash pools as at 31 December 2017

(Thousands of United States dollars)

	United States dollars	*Euros*	*Swiss francs*	*Others*	*Total*
Main cash pool	211 052	548	491	1 328	213 419

Currency risk: sensitivity analysis

183. A strengthening/weakening of the euro and Swiss franc United Nations operational rate of exchange as at 31 December would have affected the measurement of investments denominated in a foreign currency and increased/decreased net assets and surplus or deficit by the amounts shown in the table below. This analysis is based on foreign currency exchange rate variances considered to be reasonably possible as at the reporting date. The analysis assumes that all other variables, in particular interest rates, remain constant.

Effect on net assets, surplus or deficit

(Thousands of United States dollars)

	As at 31 December 2017		*As at 31 December 2016*	
	Effect on net assets, surplus or deficit		*Effect on net assets, surplus or deficit*	
	Strengthening	*Weakening*	*Strengthening*	*Weakening*
Euro (10 per cent movement)	2 076	(2 076)	1 297	(1 297)
Swiss franc (10 per cent movement)	1 859	(1 859)	8 445	(8 445)

Other market risk

184. The organization is not exposed to significant other price risk, as it has limited exposure to price-related risk related to expected purchases of certain commodities used regularly in operations. A change in those prices may alter cash flows by an immaterial amount.

Accounting classifications and fair value

185. Owing to the short-term nature of cash and cash equivalents, including cash pool term deposits with original maturities of less than three months, receivables and payables, carrying value is a fair approximation of fair value.

Fair value hierarchy

186. The table below analyses financial instruments carried at fair value by the fair value hierarchy levels. The levels are defined as follows:

(a) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

(b) Level 2: inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices);

(c) Level 3: inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

187. The fair value of financial instruments traded in active markets is based on quoted market prices as at the reporting date and is determined by the independent custodian on the basis of the valuation of securities sourced from third parties. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's-length basis. The quoted market price used for financial assets held by the cash pools is the current bid price.

188. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in level 2.

189. There were no level 3 financial assets or any liabilities carried at fair value, or any significant transfers of financial assets between fair value hierarchy classifications.

Fair value hierarchy

(Thousands of United States dollars)

	As at 31 December 2017			*As at 31 December 2016*		
	Level 1	*Level 2*	*Total*	*Level 1*	*Level 2*	*Total*
Financial assets at fair value through surplus or deficit						
Bonds — corporate	9 407	–	9 407	15 572	–	15 572
Bonds — non-United States agencies	31 510	–	31 510	42 488	–	42 488
Bonds — non-United States sovereigns	3 307	–	3 307	2 787	–	2 787
Bonds — supranational	4 588	–	4 588	4 759	–	4 759
Bonds — United States treasuries	16 158	–	16 158	13 096	–	13 096
Main pool — commercial papers	17 792	–	17 792	3 332	–	3 332
Main pool — term deposits	–	113 854	113 854	–	63 389	63 389
Main pool total	**82 762**	**113 854**	**196 616**	**82 034**	**63 389**	**145 423**

Note 24
Financial instruments: cash pools

190. In addition to directly held cash and cash equivalents and investments, the organization participates in the United Nations Treasury main pool. The main pool comprises operational bank account balances in a number of currencies and investments in United States dollars.

191. Pooling the funds has a positive effect on overall investment performance and risk, because of economies of scale and the ability to spread yield curve exposures across a range of maturities. The allocation of cash pool assets (cash and cash equivalents, short-term investments and long-term investments) and revenue is based on each participating entity's principal balance.

192. As at 31 December 2017, the organization participated in the main pool, which held total assets of $8,086.5 million (2016: $9,033.6 million), of which $213.4 million

was due to the organization (2016: $200.9 million) and its share of revenue from the main pool was $2.6 million (2016: $1.5 million).

Summary of assets and liabilities of the main pool as at 31 December 2017

(Thousands of United States dollars)

	Main pool
Fair value through the surplus or deficit	
Short-term investments	5 645 952
Long-term investments	1 779 739
Total fair value through the surplus or deficit investments	**7 425 691**
Loans and receivables	
Cash and cash equivalents	636 711
Accrued investment revenue	24 098
Total loans and receivables	**660 809**
Total carrying amount of financial assets	**8 086 500**
Cash pool liabilities	
Payable to UN-Habitat	213 420
Payable to other cash pool participants	7 873 080
Total liabilities	**8 086 500**
Net assets	–

Summary of revenue and expenses of the main pool for the year ended 31 December 2017

(Thousands of United States dollars)

	Main pool
Investment revenue	104 576
Unrealized gains/(losses)	874
Investment revenue from main pool	**105 450**
Foreign exchange gains/(losses)	7 824
Bank fees	(853)
Operating expenses from main pool	**6 971**
Revenue and expenses from main pool	**112 421**

Financial risk management

193. The United Nations Treasury is responsible for investment and risk management for the main pool, including conducting investment activities in accordance with the Guidelines.

194. The objective of investment management is to preserve capital and ensure sufficient liquidity to meet operating cash while attaining a competitive market rate of return on each investment pool. Investment quality, safety and liquidity are emphasized over the market rate of return component of the objectives.

195. An investment committee periodically evaluates investment performance and assesses compliance with the Guidelines and makes recommendations for updates thereto.

Financial risk management: credit risk

196. The Guidelines require ongoing monitoring of issuer and counterparty credit ratings. Permissible investments may include, but are not restricted to, bank deposits, commercial paper, supranational securities, government agency securities and government securities with maturities of five years or less. The cash pools do not invest in derivative instruments such as asset-backed and mortgage-backed securities or equity products.

197. The Guidelines require that investments not be made in issuers whose credit ratings are below specifications, and provide for maximum concentrations with given issuers. These requirements were met at the time the investments were made.

198. The credit ratings used for the cash pools are those determined by major credit-rating agencies; Standard & Poor's (S&P), Moody's and Fitch are used to rate bonds and discounted instruments, and the Fitch viability rating is used to rate bank term deposits. At year-end, the credit ratings were as shown below.

Investments of the cash pool by credit ratings as at 31 December 2017

(Percentage)

Main pool	*Ratings as at 31 December 2017*				*Ratings as at 31 December 2016*				
Bonds (long-term ratings)									
	AAA	**AA+/AA/AA-**	**A+**	**NR**		**AAA**	**AA+/AA/AA-**	**BBB**	**NR**
S&P	30.5	65.5	4.0	–	S&P	33.6	55.1	5.6	5.7
Fitch	61.3	30.6	–	8.1	Fitch	62.4	28.3		9.3
	Aaa	**Aa1/Aa2/Aa3**				**Aaa**	**Aa1/Aa2/Aa3**		
Moody's	55.3	44.7			Moody's	50.3	49.7		
Commercial papers (short-term ratings)									
	A-1+/A-1					**A-1+/A-1**			
S&P	100.0				S&P	100.0			
	F1					F1+			
Fitch	100.0				Fitch	100.0			
	P-1					P-1			
Moody's	100.0				Moody's	100.0			
Reverse repurchase agreement (short-term ratings)									
	A-1+					**A-1+**			
S&P	100.0				S&P	100.0			
	F1+					**F1+**			
Fitch	100.0				Fitch	100.0			
	P-1					P-1			
Moody's	100.0				Moody's	100.0			
Term deposits (Fitch viability ratings)									
	aaa	**aa/aa-**	**a+/a**			**aaa**		**aa/aa-**	**a+/a**
Fitch	–	44.2	55.8		Fitch	–		48.1	51.9

Abbreviation: NR, not rated.

199. The United Nations Treasury actively monitors credit ratings and, because the organization has invested only in securities with high credit ratings, management does not expect any counterparty to fail to meet its obligations, except for any impaired investments.

Financial risk management: liquidity risk

200. The main pool is exposed to liquidity risk associated with the requirement of participants to make withdrawals on short notice. It maintains sufficient cash and marketable securities to meet participants' commitments as and when they fall due. The major portion of cash and cash equivalents and investments are available within one day's notice to support operational requirements. Cash pool liquidity risk is therefore considered to be low.

Financial risk management: interest rate risk

201. The main pool comprises the organization's main exposure to interest rate risk, with fixed-rate cash and cash equivalents and investments being interest-bearing financial instruments. As at the reporting date, the main pool had invested primarily in securities with shorter terms to maturity, with the maximum being less than five years (2016: five years). The average duration of the main pool was 0.61 years (2016: 0.71 years), which is considered to be an indicator of low risk.

Main pool interest rate risk sensitivity analysis

202. The analysis below shows how the fair value of the main pool as at the reporting date would increase or decrease should the overall yield curve shift in response to changes in interest rates. As these investments are accounted for at fair value through surplus or deficit, the change in fair value represents the increase/decrease of the surplus or deficit and net assets. The impact of a shift up or down of up to 200 basis points in the yield curve is shown (100 basis points equals 1 per cent). These basis point shifts are illustrative.

Main pool interest rate risk sensitivity analysis as at 31 December 2017

Shift in yield curve (basis points)	*-200*	*-150*	*-100*	*-50*	*0*	*+50*	*+100*	*+150*	*+200*
Increase/(decrease) in fair value (Millions of United States dollars)									
Main pool total	**95.47**	**71.60**	**47.73**	**23.86**	**–**	**(23.86)**	**(47.72)**	**(71.57)**	**(95.42)**

Main pool interest rate risk sensitivity analysis as at 31 December 2016

Shift in yield curve (basis points)	*-200*	*-150*	*-100*	*-50*	*0*	*+50*	*+100*	*+150*	*+200*
Increase/(decrease) in fair value (Millions of United States dollars)									
Main pool total	**124.35**	**93.26**	**62.17**	**31.08**	**–**	**(31.08)**	**(62.14)**	**(93.21)**	**(124.27)**

Other market price risk

203. The main pool is not exposed to significant other price risk, because it does not sell short, borrow securities or purchase securities on margin, which limits the potential loss of capital.

Accounting classifications and fair value hierarchy

204. All investments are reported at fair value through surplus or deficit. Cash and cash equivalents carried at nominal value are deemed to be an approximation of fair value.

205. The levels are defined as:

(a) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

(b) Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices);

(c) Level 3: inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

206. The fair value of financial instruments traded in active markets is based on quoted market prices as at the reporting date and is determined by the independent custodian on the basis of the valuation of securities sourced from third parties. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's-length basis. The quoted market price used for financial assets held by the cash pools is the current bid price.

207. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques that maximize the use of observable market data. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in level 2.

208. The following fair value hierarchy presents the main pool assets that are measured at fair value as at the reporting date. There were no level 3 financial assets, liabilities carried at fair value or significant transfers of financial assets between fair value hierarchy classifications.

Fair value hierarchy for investments as at 31 December: main pool

(Thousands of United States dollars)

	As at 31 December 2017			*As at 31 December 2016*		
	Level 1	*Level 2*	*Total*	*Level 1*	*Level 2*	*Total*
Financial assets at fair value through surplus or deficit						
Bonds — corporate	355 262	–	355 262	697 676	–	697 676
Bonds — non-United States agencies	1 190 050	–	1 190 050	1 903 557	–	1 903 557
Bonds — non-United States sovereigns	124 892	–	124 892	124 854	–	124 854
Bonds — supranational	173 275	–	173 275	213 224	–	213 224
Bonds — United States treasuries	610 267	–	610 267	586 739	–	586 739
Main pool — commercial papers	671 945	–	671 945	149 284	–	149 284
Main pool — term deposits	–	4 300 000	4 300 000	–	2 840 000	2 840 000
Main pool total	**3 125 691**	**4 300 000**	**7 425 691**	**3 675 334**	**2 840 000**	**6 515 334**

Note 25
Related parties

Key management personnel

209. Key management personnel are those with the ability to exercise significant influence over the financial and operating decisions of the organization. For the United Nations Human Settlements Programme, the key management personnel group is deemed to comprise the Executive Director and the Deputy Executive Director.

210. The aggregate remuneration paid to key management personnel includes net salaries, post adjustments and other entitlements such as grants, subsidies and employer pension and health insurance contributions.

211. The organization's key management personnel were paid $0.7 million over the financial year; such payments are in accordance with the Staff Regulations and Rules of the United Nations, the published salary scales of the United Nations and other publicly available documents.

Compensation of key management personnel

(Thousands of United States dollars)

	Key management personnel	*Close family members*	*Total as at 31 December 2017*	*Total as at 31 December 2016*
Number of positions (full-time equivalents)	2	–	2	2
Aggregate remuneration:				
Salary and post adjustment	520		520	469
Other compensation/entitlements	150	–	150	118
Total remuneration for the year	**670**	**–**	**670**	**587**

212. Non-monetary and indirect benefits paid to key management personnel were not material.

213. No close family member of key management personnel was employed by the organization at the management level. Advances made to key management personnel are those made against entitlements in accordance with the Staff Regulations and Rules of the United Nations; such advances against entitlements are widely available to all staff of the organization.

Related entity transactions

214. In the ordinary course of business, to achieve economies in executing transactions, financial transactions of the organization are often executed by one financial reporting entity on behalf of another. Before the introduction of the Umoja system, these had to be manually followed up and settled. In Umoja, settlement occurs when the service provider is paid.

Note 26
Leases and commitments

Finance leases

215. The organization has no finance leases.

Operating leases

216. The organization enters into operating leases for the use of land, permanent and temporary buildings and equipment. The total operating lease payments recognized in expenditure for the year were $1.7 million. Other expenses include $0.9 million towards donated rights-to-use arrangements, for which corresponding revenue is recognized in the statement of financial performance and presented within voluntary contributions revenue. Future minimum lease payments under non-cancellable arrangements are set out in the table below.

Future minimum operating lease obligations

(Thousands of United States dollars)

Obligations for operating leases	*Minimum lease payments as at 31 December 2017*	*Minimum lease payments as at 31 December 2016[a]*
Due in less than 1 year	2 350	1 883
Due from 1 to 5 years	4 509	6 109
Due later than 5 years	–	56
Total minimum operating lease obligations	**6 859**	**8 048**

[a] Comparatives have been restated to conform to current presentation.

217. These contractual leases are typically between one and seven years, with some leases allowing extension clauses and/or permitting early termination within 30, 60 or 90 days. The amounts present future obligations for the minimum contractual term, taking into consideration contract annual lease payment increases in accordance with lease agreements. No agreements contain purchase options.

Leasing arrangements where the organization is the lessor

218. The organization has no leases as a lessor.

Contractual commitments

219. The commitments for property, plant and equipment; intangible assets; implementing partners; and goods and services contracted but not delivered as at the reporting date are set out in the table below.

Contractual commitments by category

(Thousands of United States dollars)

	Total as at 31 December 2017	*Total as at 31 December 2016*
Goods and services	21 867	29 294
Implementing partners	42 539	34 691
Total	**64 406**	**63 985**

Note 27
Contingent liabilities and contingent assets

Contingent liabilities

220. The organization is subject to a variety of claims that arise from time to time in the ordinary course of its operations. These claims are segregated into two main categories: commercial and administrative law claims. As at the reporting date, the organization had no reportable cases.

221. Owing to the uncertainty of the outcome of these claims, no provision or expense has been recorded, as the occurrence, amount and timing of the outflows are not certain. Consistent with IPSAS, contingent liabilities are disclosed for pending claims when the probability of outcome cannot be determined and the amount of loss cannot be reasonably estimated.

Contingent assets

222. In accordance with IPSAS 19: Provisions, contingent liabilities and contingent assets, the organization discloses contingent assets when an event gives rise to a probable inflow of economic benefits or service potential to the organization and there is sufficient information to assess the probability of that inflow. As at 31 December 2017, there were no material contingent assets arising from the organization's legal actions or interests in joint ventures that were likely to result in a significant economic inflow.

Note 28
Grants and other transfers

223. The following are the regions in which the funds given to implementing partners have been spent.

Grants and other transfers by region

(Thousands of United States dollars)

	Total 2017	*Total 2016*
Africa	3 278	5 992
Arab States	14 269	15 429
Asia and the Pacific	3 187	4 253
Global	7 313	9 638
Latin America and the Caribbean	694	(438)
Total	**28 741**	**34 874**

224. This amount is part of the $62.3 million shown in the statement of financial performance as expenditure under grants and other transfers. The difference of $33.6 million was for end beneficiaries.

Note 29
Events after the reporting date

225. There have been no material events, favourable or unfavourable, that occurred between the date of the financial statements and the date on which the financial statements were authorized for issue that would have had a material impact on these statements.

Note 30
Cost recovery

226. Cost recovery is a mechanism used by UN-Habitat to ensure that core resources are not used to subsidize earmarked project activities. It encompasses the enforcement of direct charging to project activities of all costs that are directly attributable to the projects and also the recoupment of core funds from projects in cases in which direct charging was not possible owing to pre-financing or other approved temporary cost-sharing arrangements. While other regimes use cost recovery funds to directly reduce

the expenditure to which they relate, it is the policy of the United Nations to record cost-recovered amounts as revenue. Cost recovery does not represent additional revenue for UN-Habitat, as it is merely a form of internal revenue movement between core funding and project funding. For the current reporting period, $2.5 million has been recorded in two UN-Habitat segments and duly eliminated in the statement of financial performance to avoid overstating revenues and expenses.

Cost recovery

(Thousands of United States dollars)

	Total as at 31 December 2017	*Total as at 31 December 2016*
Total cost recovery	**2 598**	**2 447**